INTRODUCTION

TO

THE STUDY OF

INDIAN ECONOMICS.

(THIRD EDITION)

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PREFACE TO THE THIRD EDITION.

By some 'Indian Economics' is regarded as a meaningless and an awkward term. The contention that unless you can construct an altogether new economic science out of Indian social phenomena, you can not label Economics as 'Indian' solely on the ground that you are dealing with Indian economic conditions, is full of force and deserves respectful consideration. But a moment's reflection will show that the objection is merely a fight about words. The term 'Indian Economics' enjoys the advantage of having had a long vogue and concisely expresses the meaning it is intended to convey, viz. its being a special study of Indian economic conditions, conducted with a view to discover the working of economic laws and to indicate efficient and beneficial methods of economic progress. Thus understood, Indian Economics has its place well defined and secure and there ought to be no ground for dispute, at least among economists, as to its scope, purpose and nomenclature until another and a better term is suggested. Political Economy and Economics and several terms used in the exposition of the science, are themselves not free from objection, and there is absolutely no harm in using the well-defined and well-understood term 'Indian Economics.'

With regard to the study of Economics in this country it is stated that the usual teaching of the subject in our Colleges is based upon western conditions and experiences and that it is not properly correlated to Indian social phenomena. Wherever this complaint may be well-founded, it is obviously the fault of the teacher who must illustrate principles by referring to indigenous conditions and evolve conclusions from them. Right educational methods require that in order that the study of Economics may prove stimulating and fruitful, it should be intimately associated with the surroundings and the observations

of the learner. This does not, however, render superfluous a specialized and intensive study of Indian economic conditions and problems, and our University has done wisely in including 'Indian Economics' in its curricula far the B. A. and M. A. examinations. The economic evolution of the Indian communities under the stress of modern developments and the urgent requirements of healthy progress, demand earnest investigation and suitable action; and it is necessary that the number of educated people who can take an intelligent interest in economic problems should steadily increase in India. It is the main object of this book to help the student to observe and interpret the facts and tendencies of Indian life, to assimilate economic principles and to apply them to his own experiences and observations. It is likewise designed to assist the general reader to secure a working knowledge of India's economic position and prospects. The warm reception which the first two editions met with at the hands of students and the general public all over the country, testified to its having satisfied a real want and the author felt encouraged to issue a third edition in an enlarged and a thoroughly improved form.

The opportunity has been fully availed of to give effect to many of the friendly and helpful suggestions that had been received. The text has been revised and rearranged in several places and considerable additions have been made to it throughout. The summaries appended to the chapters have been taken out and the volume of the book has been increased so as to cover a larger field. The effects of the war upon capital, labour, finance, currency, exchange, banking, prices and consumption have been of a far-reaching character and they have been brought out in the appropriate places. The latest facts and statistics have been given everywhere and no pains have been spared to render the book uptodate, instructive and suggestive to different classes of readers.

FERGUSSON COLLEGE,
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PREFACE TO THE FIRST EDITION.

The following pages have been written with the object of meeting the needs of students who require guidance in the study of economic problems pertaining to India and of general readers who wish to get acquainted with the chief features of the economic organization and development of this country. The book does not presume to deal exhaustively with the subjects discussed—volumes will be required to do so. It only seeks to show briefly how the principles of Economics should be applied to Indian conditions, and to place before the reader the different aspects of Indian economic life. As such, the volume is expected to render material help to College students taking up general Economics, and Indian Economics in particular, as special subjects, and to all others who take any interest in the advancement of this country and specially in the promotion of its economic and social well-being.

The general order of treatment usually found in text-books on Economics, has been followed with a view to conduce to the convenience of the student, but in doing so, care has been taken to bring into prominence chief among the peculiar economic problems which require careful study and demand a solution, in this country. The elementary principles have been briefly indicated in each place, and their application to Indian conditions has been pointed out. The economic changes which have taken place and which are in progress, have been traced, and the situation in India is compared with the development and position in Western countries. Very few people in India know the nature and working of even the simple laws which govern the production, exchange and distribution of wealth or are acquainted with the modern machinery of trade, currency, credit and finance. This ignorance lands people into curious mistakes when they try to tackle economic problems; and well-directed attempts at the promotion of progress, are rendered difficult. Equally

dangerous is the easy optimism of those who are led away by appearances and draw comforting conclusions both from the contrasts and the analogies presented by Indian conditions when compared with those prevalent elsewhere. This book, it is hoped, will supply a corrective to both these tendencies, and will afford a true insight into the economic situation of India.

The author has freely stated his own views on each question—this was inevitable and even necessary—and has also given reasons why he holds them. He has taken every care, however, to place the pros and cons in each case before the reader so as to stimulate thought and rouse a spirit of enquiry, and to help him to form an opinion for himself. The reader is referred, in each chapter, to the literature he must go through if he wishes to prosecute his studies further, and the student will find the references helpful in acquiring a more intimate acquaintance with the subjects of study. Only very recently has the importance of economic studies come to be appreciated, and the provision made for them is yet far from adequate. The text-books are very few and the information pertaining to different subjects is scattered through a large number of blue books, reports, monographs &c. The purpose of writing this book will be fully served if it satisfies the want which, the author knows, is keenly felt by students and general readers.

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INDIAN ECONOMICS.

CHAPTER I.

National Economics.

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RANADE: Essays in Indian Economics: LIST: The National System of Political Economy; J. TAYLOR PEDDIE: A National System of Economics: THEODORE MORISON: Economic Transition in India; and Organization of an Indian Province; MORELAND An Introduction to the Study of Economics; LEES SMITH: Studies in Indian Economics. RADHAKAMAL MUKERJI: Foundations of Indian Economics; S. V. KETKAR: An Essay on Indian Economics; D. E. WACHA: Four Papers on Commerce and Industry; H. STANLEY JEVONS: Lecture on Economics in India; N. M. MUZUMDAR: Lecture on the Study of Indian Economics; V. G. KALE: Indian Industrial and Economic Problems.

1. Economics in India:—It is hardly possible to over-estimate the value of a close and careful study of 'Indian Economics,' and the importance of the investigation of economic conditions and of the application of remedies suggested by it for the promotion of the well-being of the mass of the Indian people, has been widely acknowledged. The expression 'Indian Economics' has, however, been often misunderstood, and the idea of its constituting a special branch of study has been even ridiculed. Though a few well-known Indians have zealously devoted themselves to a study of Indian economic problems and have evolved a certain distinctive line of thought as well as substantial and definite results from their investigations, it can hardly be said that a 'school' of economic thought, as such, has been yet established in this country.

It is true that a set of earnest students look at the more prominent questions relating to the economic conditions in India from a particular point of view which does not accord with the angle of vision of the authorities in this country and in England. Nor does that view-point commend itself to an influential section of publicists and thinkers whose diagnosis of and remedies for the economic ills of India are entirely different. The problems of poverty, trade, land revenue, finance, currency, fiscal policy, caste, and the attitude of the State towards industrial enterprise, are thus subjects on which opinion is sharply divided, and if a generalization may be allowed on such a subject, it may be observed that the trend of economic thought in India has been slowly hardening into an Indian 'school.'

'Indian Economics' does not constitute a separate science or a branch of the science of Economics. But Indian Economics may well lay claim to respectful consideration like English Political Economy, for instance, as it deals with peculiar political, social, intellectual and economic conditions which constitute an important subject of research and study. At any rate, there is a general agreement that the progress of the country and the promotion of the welfare of its people, demand a scientific investigation at the hands of those who can devote themselves to an inquiry into the material condition of the various classes of the community in India with a view to finding out remedies for its amelioration. This is and ought to be the sense of the term 'Indian Economics', and it should not be understood, as it some times is, to signify any fresh contribution to Economic Science or the formulation of new economic theories.

The distinctive feature of the Indian school of thought referred to above, is its characteristically national interpretation of the facts of Indian life ; and it was developed as a protest against the economic policy pursued by the rulers of the country with respect to its finance, trade and industries. The position of India as a Dependency of Great Britain entailed the application to its administration of economic theories predominant in the ruling nation

and what is of greater importance, it meant the adoption of measures which were hardly suited to the requirements of the material and moral development of the people of this country. Divergent views will spring up among the followers of the Indian school as the shaping of the nation's destinies passes more and more into Indian and popular hands, but the national bent of thought will continue to be its essential and distinguishing principle. We do not think it possible to evolve altogether new economic theories out of Indian social and material conditions and conceptions though we may enrich the exposition of economic science by illustrations taken from the variety of Indian life and its interesting peculiarities and contradictions. Indian Economics, therefore, signifies a study of the problems of material development which confront the Indian people in their present stage of economic evolution with the background of their authentic and continuous history of over three thousand years and with the prospect of a plunge into conditions and aspirations of the civilization of the twentieth century. It is a statement of the social and material facts about the complex life of Indian people and the formulation of a body of views and postulates evolved from the study of observed facts and tendencies.

2. Peculiar Conditions :—The social, political and industrial organization in India has its special features which require careful study and which cannot be made easily to fit in with economic ideas and doctrines which prevail at the moment in Western countries. These countries themselves have passed through a variety of economic phases and experiences, and India presents economic and social phenomena which have appeared at different stages in the development of western nations. The present industrial organization of Europe and America cannot be said to be the final phase of their evolution which has been brought about by different geographic, climatic, religious and political influences. It is neither final nor, by any means, perfect.

On what lines India should or will advance cannot be definitely stated.[1] But the unifying effect of British rule in this country, the peace and orderly government which prevail within its borders, the Western education which its people are receiving, the close contact into which this ancient land has been brought with the other countries of the most distant parts of the world, and the hopes and aspirations which have been roused in the public mind about their national destiny by happenings outside and within its borders, and particularly by the great World War which has set afloat new conceptions of national and international life that are taking a firm hold of the eastern mind,—all these are factors whose influence on the development of India has been profound. The social institutions, the religious beliefs and the centuries-old traditions of the Indian people, have been and are being deeply affected by these influences, the result of which is a curious mixture of old and new, Eastern and Western. Consequently Indian economic phenomena have become most complex, though highly interesting, and it is difficult to say whither things are moving. It is the work of the economist to disentangle this mass of confused facts and tendencies and to apply to them the laws of his science in such a way as to suggest the lines along which progress should beneficially be directed.

The vastness of the Indian continent, the diversity of physical and climatic conditions which prevail in its

1 There are some thinkers who hold that India should try to preserve its distinctive civilization and to maintain its old economic organization, its social and industrial institutions and its traditional methods of production and consumption. They do not want the introduction into this country of the factory system with all the evils which are associated with it. There is no doubt that India must avoid these evils, and learn from the bitter experiences of western nations. But is it possible and desirable for India to do without machinery, steam and electrical power and production on a large scale and by improved methods and to stick to ancient practices, methods and institutions ? For the view criticised here, see Prof. Radhakamal Mukerjee's Foundations of Indian Economics and the writings of Messrs. P. N. Bose and A. Coomaraswamy.

different parts, the variety of planes of intellectual and social progress on which the several Indian peoples stand and the heterogeneity of ideas, usages and institutions which distinguish its numerous communities, constitute the immensely confused though inviting material on which the student has to work, and sweeping generalizations and theories about India as a whole are absolutely out of the question. At the back of this diversity and overshadowing it, there has always reposed a unity, however, which has not escaped the attention even of the stranger. And the influences which British rule has set at work are shaping the economic as well as the political destiny of the land in a manner the tendencies and results of which are discernible to the careful inquirer. In this twentieth century no country in the world can remain in isolation and can help being plunged into the vortex of modern material civilization, and Asiatic nations will no longer be what they were in the last century. Outside observers who do not know the Indian people intimately, therefore, feel that "there is an urgent need that some one or some group of men should set about trying to create a distinctly Indian political economy." [1]

3. Economic Policy.—Since the rise of the Historical School of Political Economy, economic laws have lost their old dogmatic character, and it is now usual with economists, in dealing with the problems that come within their purview, to make allowance for different circumstances which affect the operation of the laws of their science. The axiomatic assumptions of the older economists are no longer accepted as the starting points of discussion, but the development of every economic

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1 Prof. Lees Smith : 'Studies in Indian Economics.' He goes on to observe :—"The difference between the problems of England and those of this land must show you that there can be no greater danger than that of blindly following the writings of English economists. They are writings for a country in which the conditions are entirely different to those which obtain here and they have at the back of their minds problems which are everything to them but which are little or nothing to you."

phenomenon and institution is carefully traced and the bearing upon it of political, social and intellectual environments is properly taken into account. The inductive method of inquiry, used in conjunction with the deductive, has strengthened the position of the economic science and has rendered the role of the economist more practical and valuable.

In economic, as in political affairs, two different and conflicting veins of thought are seen running along the development of the policy of the State in this country. Imbued with ideas and theories imbibed in England, the Indian rulers have sometimes attempted to foist upon an alien civilization the systems accepted as correct and beneficial in their own country, and it is no wonder if the doctrines of the orthodox economists should have been applied wholesale to the conditions in India. On the other hand, the peculiar features of the political and social organization in this country have been made the ground of a refusal to adopt in India measures which experience has proved beneficial in England and particularly on the Continent and in America and Japan. If *laissez faire* has thus been the keynote of the policy of Government in certain matters, in others it has gone to the other extreme, and some of its measures are national and socialistic to a degree.[1]

We have noticed this fact not to emphasise the inconsistency lurking in the policy of the State in India but rather to show that the lessons of the recent development of economic thought have not yet been adequately taken to heart by Government. Students of Indian Economics feel that the experience gained by nations similarly circumstanced as India, is very valuable and that the measures taken by their Governments to promote the national prosperity of their people should be adopted in this country though they may militate against vested in-

1 See Ranade's Essay on Indian Political Economy; and Mr. Montague's speech on Indian Land Policy in Speeches on Indian Questions by the Rt. Hon. Mr. Montagu.

terests and against pre-conceived notions as to correct economic doctrines which, after all, have relative applicability.[1]

Apart from the peculiar geographical, climatic, religious and social factors which peculiarly affect the economic condition of a country, there are other currents and cross-currents such as the consciousness of a growing communal and national unity, the resistance of old ideas and usages against all change, the struggle for self-preservation, the tendency to imitate and assimilate foreign institutions and ideas and the desire to attain a higher standard of material prosperity, which play an important part in determining the actions of peoples and states. In the construction of 'an independent body of economic doctrines which could be logically deduced from the observed facts of Indian society,' special national considerations will have their own share. Indian Economics will, in this sense, be as List says, a National Political Economy as distinguished from the cosmopolitical. Economic doctrines must go through the ordeal of applicability to Indian conditions. Mr. Ranade systematically showed how this was necessary and his lead has been followed by several students who have thought and written on the subject. Sir Theodore Morison is right when he observes that the time has not yet come 'when it is possible to attempt a complete statement of the economics of Indian industry,' because 'the material at our disposal is at present too scanty'; yet the pains-taking and observant student knows Indian conditions well enough to enable him to discuss and indicate the direction in which things are moving and ought to move.

4. Importance of Economic Studies.—That Indian Economics deserves careful study, is a truth which happily has now been recognized, as we have stated

1 Writers of the Historical or National School of Economics, therefore, insist that "Science must not deny the nature of special national circumstances, nor ignore and misrepresent it, in order to promote cosmopolitan objects. These objects can only be attained by paying regard to nature, and by trying to lead the separate nations in accordance with it to a higher aim."—Frederic List.

above, on all hands. In spite of its great value, however, for the promotion of the well-being of the people of the country, the subject has not received the attention it deserves. Earnest men, convinced of the close relation which subsists between a correct knowledge of economic laws and conditions and the progress of society that may be achieved by the practical application of that knowledge, have always deplored in India the general apathy of the educated classes towards economic studies.[1] This indifference is largely due to the insignificant number of highly educated persons compared to the total population, to our defective system of education and to the discouraging conditions that surround the student. Whatever the causes may be, latterly signs of improvement have been visible on all hands. The Universities are taking kindly to the subject, for the teaching of which provision is being made, and the need of a study of economic science and of Indian Economics, has been emphasised by the work of our Legislative Councils and the economic awakening which seems to have come over the country.

Indian Economics, as we have pointed out above, is not an independent science, because it does not seek to discover new laws which were not known to earlier thinkers. We have indeed to observe things as they are, describe the economic activities of the different classes of the population and to study the different economic phenomena like high prices, low wages, expanding trade and increasing rents, and have to point out the relation of

1 "Who will deny that for the future well-being of our national prosperity, the study of economics is of priceless value? Is it not our paramount duty to wake up in this respect, if we are to succeed in the keen competitive race now going forward in the world, in arts and industries, manufactures and commerce, in fact, in all matters which contribute to the larger production of wealth? The universal recognition of economic studies in all the civilized countries of the West is, we need not say, the most gratifying feature of our busy age and the most hopeful sign of the better welfare of the human race in the future. We earnestly put it to our countrymen whether they are to stand aside while the human race is progressing?"—D. E. Wacha: "Four Papers on Commerce and Statistics."

cause and effect. But we have also to indicate how improvement may be effected by individual and collective action, and how evils may be prevented and remedied, It thus suggests an application of economic laws to Indian conditions and partakes more of the nature of the art of Economics or of a normative science. It is, besides, national in this sense that it deals with the peculiar conditions of India and has in view the special requirements of the material advancement of its people.

No study of existing conditions is likely to be complete and fruitful unless it is supplemented by an inquiry into the development of Indian economic and social practices and institutions through different stages from antiquity. The present can be clearly understood only by a reference to the past. And it is necessary in each case to trace from its source the history of a question that has to be considered. Unless we probe a problem to the bottom and get at the fundamental conceptions of things, our discussion will be superficial. Such investigation must constitute an important feature of Indian Economics. Much useful light is being thrown by scholars upon some of the dark and obscure portions of Indian history to enable the economist to pursue his inquiries with profit. The economic inquirer must avail himself of all the material that is available and collect all the information he can, so that a comprehensvie view of things may be taken and correct conclusions may be drawn. For, economic practice, social institutions, laws, usages and religious ideas are in India so closely up bound together that a knowledge of these several aspects of life is indispensable to a clear understanding of the economic position and development.

5. Theory and its Application.—The comparative poverty and the general backwardness of the large

mass of population in this country, are patent to every one who has devoted any thought to the subject. The standard of living and the earning capacity of the people are extremely low and the scope for improvement is vast. The social structure, the industrial organization and the methods of production all require reform, and if a conscious and systematic effort is to be made, it must be based upon accurate knowledge of facts and well-thought-out schemes. What part the State should play in bringing about this consummation, what steps it ought to be expected to take for that purpose and how the creation of larger quantities of wealth in the country should be facilitated by a change in the attitude of individuals and groups of individuals as well as of the State, are questions the solution of which depends on economic studies, whose results may be relied upon to suggest suitable action.

The growing population of India must be decently housed, fed and clothed and the general level of its living must be raised. The national dividend must increase and its distribution must be rearranged so that a much larger share of wealth may fall to the lot of each person enabling him thereby to live a more happy life. The present condition in this respect, is, by common consent, not satisfactory, and the problem can be effectively solved only by a fruitful economic study and an earnest endeavour to apply the remedy suggested by it. The work of the economist is cut out for him. What is required is enthusiasm and training.[1] Few people have an idea that there is a science of economics and that phenomena of industry, trade, wages, prices and poverty are governed by laws; many believe that

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1 "That spirit of self-sacrifice is wanted amongst increasing numbers in this great Empire; it is wanted particularly in Economics and the kindred social sciences, for truly the problems of an economic character awaiting solution are gigantic. There are certain ways, too, in which India may be said to be particularly dependent upon the science and the art of economics for progress in social legislation."—Prof. H. Stanley Jevons: Economics in India—Inaugural Lecture.

they know the nature of social ailments and their specifics when as a matter of fact they have not even the glimmering of the essence of those problems.[1]

The task of the economist is not less responsible in India than in other countries. His conclusions will run counter to the accepted policy of the State in certain respects and in others they will come in conflict with the pre-conceived notions of the people. Not only has the Indian economist to disentangle complex facts and correctly to interpret them, pointing his finger to the right path of progress to the State and to the various classes of the community, but he has also to expose himself to the charge of being an impatient idealist, an arm-chair critic, an unpractical, inexperienced opponent or an irreverent, radical reformer

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1 " It is a popular delusion, that, while economic science itself is a difficult subject, the discussion of practical problems, in which economic forces play an important part, can safely be undertaken without special preparation. There is no warrant for this view. The study of economic theory is, indeed, difficult but the application of the knowledge, which that study wins, to the guidance of practical affairs, is an even heavier task : for it needs, not only a full understanding of the theory, but also the trained judgment that can balance against one another a large number of qualifying considerations."—Prof Pigou: Wealth and Welfare.

Referring to students of Economics, Prof. Pigou observes:—"The complicated analyses, which they endeavour to carry through are instruments for the betterment of human life. The misery and squalor that surround us, the injurious luxury of some wealthy families, the terrible uncertainty over-shadowing many families of the poor,—these are evils too plain to be ignored. Whether the life of man ends with his physical death, or is destined to pass unscathed through that gateway, the good and the evil that he experiences here are real ; and to promote the one and restrain the other is a compelling duty. It is easy, if we will, to make the difficulty of the task an excuse for leaving it unattempted. But, difficulties, which deter the weak, are a spur and stimulus to the strong. To display them, not to conceal them, is the way to win worthy recruits. Neither by the timidity that waits at a distance, nor by the wild rush of undisciplined ardour is the summit of great mountains attained. First we must understand our task and prepare for it ; and then, in the glow of sunrise, by united effort, we shall at last, perhaps, achieve."

and westernised materialist. He will have to take into account Indian ideals and ways of thought and action and decide how far they may be beneficially retained or suitably modified. He will also have to say things which will prove unpalatable both to the Government and to the people as they refer to the policy and measures of the State and the beliefs and social customs of the different classes of the population. Neither this difficulty nor the other of analysing complex problems and suggesting their solutions ought to deter the economic student from his important and apparently thankless task.

6. Economic Problems :—Difficult problems confront the student at every turn. For instance:—Do the peculiar religious beliefs and social usages of India preclude the possibility of a speedy progress in the economic uplift of the people? Is it possible for India to stick to her own supposed peculiar ideals and make other nations accept them? Should Indian industrial development run along Western lines? Can India be a manufacturing country? Is it practicable and desirable to continue the old indigenous industries, and can small industries compete with foreign manufactures working on a large scale? How do social institutions like caste, affect the economic progress of the people? What changes in the ideals and ideas of the people and the political and social institutions of the country are needed to promote rapid advancement? Is the existing educational system of the country calculated to assist in the improvement? Is the present land revenue system in need of reform? How can more money be raised from the people by the State through taxation and otherwise without prejudicially affecting their standard of living and how may it be spent to their undoubted benefit? What should be India's fiscal policy and what should be her relations with the other parts of the British Empire and with foreign nations? What should be the currency system of India and how should banking be developed in the country? What is the condition of agricultural and factory labour and how may it be improved? What should be the relations of national, provincial and local finance? Should the State manage its own railways?

What is the relation between housing and sanitation, urban and rural, and the well-being and efficieney of people? How may public charity be directed into more useful channels and mendicancy be discouraged? How can the lower classes in the community be uplifted and their capacity to produce and consume be increased?

These and other questions of this character assail the Indian economist and demand a solution at his hands. And well may he be weighed down with a sense of responsibility that rests upon his shoulders. Economic inquiry ought not to be merely an intellectual pastime to him. Nor must economic discussion be merely a warfare of words. The influence of economic investigation and of the conclusions to which it may point, must be brought to bear upon the life of the community and the actions of the State. In this lies the peculiar importance of the work of the economist.[1] It is in a spirit of profound devotion to science and untiring search after truth, inspired by a patriotic desire to contribute to the betterment of the people, that Indian economics must be conceived and the Indian economist must work. And the value of economic

1 "The economic student, if he is worthy of his calling, will proceed without fear or favour; he will be tabooed as a socialist by some, as a minion of capital by others, as a dreamer by more. But if he preserves his clearness of vision, his openness of mind, his devotion to truth, his sanity of judgment, the deference paid to his views which is even now beginning to be apparent, will be more and more pronounced. The influence of economic conditions on economic theory has been, let us hope, abundantly demonstrated; but the reciprocal influence of economic thought on actual conditions is in danger of being overlooked. Economics is therefore both the creature and the creator. It is the creature of the past; it is the creator of the future. Correctly conceived, adequately out-lined, fearlessly developed, it is the prop of ethical upbuilding, it is the basis of social progress" Seligman: *Principles of Economics*.

studies in India cannot be too much emphasised under the conditions which exist at present in the country.

7. Conclusion :—The so-called natural laws of the classical economists, to whom, however, belongs the honour of having laid the foundations of a new science, have now been discredited and their touching faith in the efficiency of freedom of competition and in the sufficiency of the spontaneous acts of individuals for the progressive improvement of the human race, has proved to be an illusion. The huge losses and the enormous suffering caused by the world war, have brought home to all minds the urgent need of international co-operation and solidarity and have produced the idea of the League of Nations. But fears are expressed, and they are not groundless, that this may turn out to be merely death-bed repentence and that nations will not have driven the old Adam out of them when they find themselves on their feet again. Writers used to refer to the economic competition of foreign nations as an "invasion" of markets and even now the fixed determination to conserve and to exploit natural resources in the interest of their own peoples, is seen animating the deliberate policy of Governments. Domocracies are, however, growing powerful every where and the hope of the world enjoying a prolonged peace and economic prosperity based upon international amity and good will, will turn upon how their authority is exercised.

The conciousness of a separate national existence and of separate national interests, is deep-rooted among peoples and there is more conflict than co-operation in the international relations of the world as it stands to-day.[1] It, therefore, sets limits to the operations of the laws of the orthodox economists and constitutes an important factor in

1 See Rabindranath Tagore's "Nationalism."

the evolution of national economics.[1] The position in India is peculialy difficult. As a nation on a very low plane of material prosperity, India has extensive ground to cover to come up with other peoples. India has the advantage of being a member of the British Empire but her people are only just beginning to secure some measure of control over their economic destiny. Her partnership in the Empire must become real and must prove a source of strength to herself as well as to the other members of the Imperial organization.

Each nation is trying to take lessons of the war to heart. English statesmen and publicists did not wait for the termination of the war to ponder over the measures of reform; and problems were discussed, plans laid out and operations commenced while the bitter struggle dragged its weary length. The need of pursuing the same policy is keenly felt in this country and much more keenly than elsewhere because the cry of Indian Economics is an old one. A silent, social and economic evolution has steadily poceeded in India during the last one hundred years. The railways, the post, the telegraph and the steamer linked India to other countries, and our foreign trade, involving competition with western manufactures, has shaken to its foundations the old fabric of our economic organization. The working of these and other influences has necessitated a systematic study of Indian economic conditions and the adoption of measures to improve them.

The poverty of the mass of the population and the evils which accompany it, consititute the most urgent problem that has got to be faced, and the only way to do it successfully is to make a comprehensive and sustained

1 "The term political economy is an empty phrase; it signifies nothing in modern practice; it has outlived its usefulness unless it be retained for the purpose of defining the science of *Laissez faire, Laissez passer*, as enunciated by John Stuart Mill and the Cobdenite school. On the other hand, National Economics is a science which constitutes the basis of nationality and is designed to control all the laws and regulations relating to education, chemistry, production, transportation, and banking out of which wealth is created; it seeks to make all dead values remunerative." J. T. Peddie: *A National System of Economics*.

effort to diognose the disease and to apply suitable remedies. The goal to be reached is thus the attainment of material prosperity by the Indian nation, and the path to reach it is that of national economics indicated above. The existing methods of the production, circulation and distribution of wealth must be adjusted to the changing conditions and requirements of the people and the State must play an active part in promoting progress. This requires intelligent and patient investigation and also willing and trained workers. The value and the responsibility of the work of Indian economists will grow with every step in the nation's advancement which has just entered upon a new and important stage.

CHAPTER II.

The Indian Outlook.

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8. Progress:—The principle of evolution has been applied to the study of phenomena of social change, and striking results have been obtained. It is now the practice with students to trace the stages through which religion, literature, political institutions, morals, social customs and industrial organization have passed before reaching their particular forms we witness in different countries. This knowledge of the past and the present is a useful guide to the determination of the future, and the statesman and the social reformer may derive ample benefit from a study of social evolution. History records examples of peoples who stagnated and decayed, and we see before our eyes nations which are going forward with rapid strides. Progress is a complex phenomenon. It is quite possible that in a community there may be visible a strong intellectual growth and yet physically, materially and morally it may be on a downward grade. Or a nation may be on the high road to material prosperity but may be morally degraded Different social and political conditions act and react upon

one another, and progress is the sum-total of development taking place in various directions.

The well-being of a people is not determined only by an increase in the material wealth it produces and has at its disposal. Nevertheless, it is a valuable criterion of its progress. And ideals of individual and national well-being may themselves change with the modification of material conditions and social institutions; and what is set down as gross and wasteful to-day, may come to be regarded as refined and helpful to-morrow. Steady increase of population, improvement of its physique and health, an augmented production of wealth resulting from the application of science to industries, a satisfactory distribution of the nation's income among the various classes of which it is composed, a bettering of the material and moral condition of the masses and the easier accessibility of intellectual and social comforts to continually growing numbers in the community—these are indications of progress, and every nation must strive to attain a higher and higher stage of development along these lines.

9. Wealth and Welfare:—Material wealth is indeed only one factor in the welfare of a community and by no means the most important factor. Man does not live by bread alone. But he cannot not live only on matephysical speculation either. Materialism which subordinates the internal sources of satisfaction to the external, has been condemned by most religions, and the pursuit of wealth by individuals and the peculiar social organization to which it gives rise, are often regarded as inconsistent with high moral and spiritual ideals.[1] Those who take this view do not, of course, contend that an increase of material wealth

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1 "The Christian view of wealth would seem to be that wealth is less important for welfare than the internal sources of satisfaction; an increase of wealth is not necessarily an increase of welfare and wealth should not be allowed to stand in the way of other kinds of welfare; it is not possible for a rich man to enter the kingdom of Heaven, but his riches are as great an obstacle to entering the kingdom as a camel's load is to passing through a postern gate."—"Economics for the General Reader" by Henry Clay.

brings no satisfaction or that it adds nothing to welfare. But they are of opinion that the pleasure contributed by the increase of wealth is evanascent and uncertain and is, therefore, inferior to spiritual welfare.

In all countries and at all times, individuals have preached and even practised the simple life in which wants are reduced to the smallest dimensions, and contentment has been sought which does not depend upon the possession of the goods of this world. Under modern economic organization, and according to modern conceptions of welfare, emphasis is usually laid on external sources of satisfaction though material wealth is not unoften regarded as a potent means to attain a higher end. There is a marked tendency to identify welfare with wealth and the condition of a nation, as of an individual, is guaged by the measure of money income. It was this conception of wealth which brought upon the modern industrial regime and economic doctrines the pious wrath of thinkers like Ruskin and rendered economic science an object of contempt and condemnation because that science was believed to have been based upon the principle of self-interest. Now, Economics does not teach selfishness ; nor does it place the pleasures of the senses on a higher plane than spiritual bliss. It only takes human beings as they are and studies their action and motives with reference to the acquisition and use of material wealth. It discusses human desires and activities and shows how the most efficient methods may be adopted to attain the cherished end. But it does not presume to pass any ethical judgment though it does take into account religious sentiments and ethical ideas to corelate its conclusions to facts of social life.

10. Ethics and Economics :—The supposed antagonism between Ethics and Religion on the one side and Economics on the other, is not real. It must, besides, be borne in mind that the desire to improve one's material condition, the ambition to rise to a higher status in society and the struggle for the possession of worldly goods, are not the peculiar features only of modern times and of modern

civilization. Recent progress of humanity has indeed chiefly lain in man's increasing conquest over the powers of nature and their utilization for the promotion of man's comfort. As new utilities are being discovered, the range of objects calculated to satisfy human wants is extending. More than a hundred years ago, Malthus was at a loss to know how the growing population of the world would be fed, but his fears have been falsified by the continually increasing stock of the necessaries of life and even of superfluities, thanks to the progress of physical science and improvement in man's power of organization.

Some people appear to think that the materialism of their generation, indicated by the increasing number of wants and the waxing struggle of man to satisfy them, betrays the degenerate character of the days on which they have fallen, and they cast 'a longing, lingering look behind' on a golden age which they locate somewhere in the past. But they fail to realise that if their line of reasoning were rigidly followed, the happiest times in the history of mankind would be those when man had not yet emerged from the savage state. They will have to set up the primitive man as the happiest human being whose lot they may envy, inasmuch as he had very few wants, and had not much trouble in satisfying them.

It may, however, be contended that we are using the language of exaggeration in presenting the attitude of those who condemn materialism and advocate the reduction of wants in number and intensity. What they perhaps mean is that material wants should be replaced by wants of a nobler kind. Plain living and high thinking is a motto which we respect and thoroughly approve, and no better ideal can be put before an individual or a community. But it is erroneous to suppose that purely econo-

mic wants have absolutely no moral value or that the highest good of humanity can be achieved only by pursuing religious and ethical ideals to the neglect of material progress.[1] In fact, no civilization would have been possible if our ancestors, whose attitude on life is sorely misunderstood and misrepresented, had not striven to promote their material welfare and had remained content with things as they found them. A review of the history of Indian civilization for the past three thousand years, will disclose the efforts made by the people to better their material condition and the sense of perspective they showed in dealing with the different factors of progress.

Communities have advanced from one economic stage to another, and at each step they have had their own problems to face and battles to fight.[2] Conditions in our times are quite different from what they were even in the near past. They have grown more complex and the difficulties involved in them are being overcome. Means of communication have become easier, and no people can now live in isolation and remain unaffected by a contact with other communities and nations. New nations have risen and are expanding, and population is everywhere increasing. Peace and democratic government, the advance of the physical sciences, and the extention of international commerce, are forcing new problems to the front and every community has to adjust itself to these changing conditions. Old institutions have grown out of date and are found unsuited and old solutions have lost their appli-

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1 " Each new want is an additional bond between men, since we cannot, as a rule, satisfy it without the help of our fellows ; in this way the feeling of solidarity becomes stronger. The man who has no wants, the anchorite, is sufficient to himself ; this is just what he should not be. As for the working classes, we should be glad, and not concerned, that new wants and desires torment them unceasingly ; were it not for this, they would have remained in perpetual bondage. "—Charles Gide : Political Economy.

2 See Ely's " Evolution of Industrial Society."

cability. A community will, under these circumstances, stand still at its peril and the bogey of so-called materialism ought not to frighten us while we are engaged in the work of reconstruction and readjustment.

11. No Conflict:—It is a misconception to suppose that man is, on the whole, more dishonest in the midst of modern surroundings than he was in the past and that the modern economic organization has led to demoralization.[1] There is evidence, on the contrary, to believe that ethical considerations are having greater sway over the individual and the national mind and that the social and economic institutions of the present day are making man, on the whole, a better man. Had this not been so, our international commerce, finance, banking, and concerted action for material and moral improvement on the part of the nations of the world, would have been impossible. These developments presuppose and foster greater mutual trust and sympathy, and the ethical sense of civilised communities is perceptibly growing stronger every day. There

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1 "In every age poets and social reformers have tried to stimulate the people of their own time to a nobler life by enchanting stories of the virtues of the heroes of old. But neither the records of history nor the contemporary observation of backward races, when carefully studied, give any support to the doctrine that man is, on the whole, harder and harsher than he was, or that he was ever more willing than he is now to sacrifice his own happiness for the benefit of others in cases where custom and law have left him free to choose his own course. Among races whose intellectual capacity seems not to have developed in any other direction, and who have none of the originating power of modern business men, there will be found many who show an evil sagacity in driving a hard bargain in a market even with their neighbours. No traders are more unscrupulous in taking advantage of the necessities of the unfortunate than the corn-dealers and money-lenders of the East."—Marshall: Economics of Industry.

is really no antagonism, as we have stated above, between correct economic action and true economic theory.[1]

Our view is that though material wealth is not the only source of welfare, it is not to be despised, because it too assists largely in elevating man to a higher level. Production upon a more extensive scale is placing within the reach of the lower classes the means of intellectual happiness which are no longer the monopoly of the few favourites of fortune. Apart, again, from what the ideal human being should be, man as he has been and is to-day, wants material comforts and our economic organization must be so designed as to provide these in sufficient quantity. It must be borne in mind further that our ethical ideas themselves are being modified by our changing surroundings. We are no longer disposed to condemn large masses of people to a life of servitude or degrading drudgery on the score of their inferior birth nor are we disposed to respect a life of renunciation or mendicancy as such as

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1 "Sympathy or altruism pushed to an extreme involves the destruction of self and therefore the death of society; self-interest or egoism pushed to an extreme means the destruction of others and therefore likewise the death of society. Social life can endure only through a balancing of these two principles, each reinforced by the other. Since economics, like ethics, is primarily a social science, the true economic action must in the long run be an ethical action. An individual may pursue selfish economic ends, and may augment his own wealth at the cost of moral progress; but he is then subordinating public to private considerations. Broadly speaking, regarded from the point of view of society as a whole, what is economically advantageous must in the long run be right; and what is correct in ethics must in the end also be profitable to the business world. The modern economist, therefore, has become just as mindful of the ethical aspects of every economic problem as the modern moralist has been forced to recognize the economic side of his ethical problem."—Seligman : Principles of Economics.

being superior. The democratic ideal is producing far-reaching effects upon our social structure and economic institutions.[1]

12. India No Exception:—This discussion of the character and effects of wealth may appear superfluous or irrelevant. But in a treatise on Indian Economics, a reference to this question is essential inasmuch as it has been discussed in this country from very remote times and two rival schools of thought have been fighting over it. There is also an amount of misconception prevalent about it in India and outside at the present moment and it has an important bearing upon the economic development of India for which great solicitude is evinced on all sides. It is usual to contrast the materialism of the west,[2] of 'the land of the mighty dollar', for instance, with the spiritualism of India, and this contrast is sometimes cherished by Indians as a compliment and not often made by outsiders through a feeling of contempt mingled with pity. This difference between the two attitudes on life strikes the superficial observer as fundamental, and Indian people are not unoften relegated to the category of inferior races. But the same judgment could have been passed upon the peoples of Europe in the Middle Ages and may be passed on some of them even at this date.

In the words of the late Mr. Justice Ranade, India has been ruralized and at the present moment, stands upon the threshold of the capitalistic and factory regime. Because India is poor, the wants of her people are limited

1 "Wealth gives liberty in this sense: it increases opportunity giving the possessor more choice in the use of his time and fuller means of self-determination or self-expression. The effect of an increase of wealth upon welfare may be neutralized by misuse or waste: the increase must be balanced against any change for the worse in the conditions of production, and allowance made for the indirect effects which an increase in one person's wealth may have upon other people's welfare. But the increase in opportunity remains; there is a potential increase in welfare."—Henry Clay: "Economics."

2 Swami Vivekananda's Speeches and Writings.

and agriculture is her main industry, it does not follow that she is more spiritual and dreamy than the West or that she is of a weaker mould. There is abundant evidence to prove that India was rich in the goods of this world as well as in spiritual and cultural wealth ; that her people desired and enjoyed material pleasures; and that arts were cultivated and the physical sciences were zealously developed in India. The poverty and backwardness of India are due to other causes—her progress was arrested and she has not been able to march with the times. And this does not prove that Indian people are wanting in the sense of enjoyment or that they are so much taken up with the thoughts of the other world that they have no appreciation for mere material pleasures.

13. Evidence of History.—The history of India, even of the remote past, is full of evidence which proves that the judgment contested above, is the result of ignorance, and is based upon a superficial observation of the existing state of things. The splendid empires of Chandragupta and Ashoka, of Samudragupta and Harsha, of the Moguls and of the Marathas, would have been impossible, if the people of India had scorned the joys of this world and had been incapable of material progress. The extensive commerce this country carried on with the outside world, even in the times of the ancient Greeks and the Romans, bespeaks the enterprise and industrial activities of the Indian people. The cloth, timber, precious stones and spices of India were carried in Indian ships and by Indian merchants to Persia, Egypt and to the countries situated on the Mediterranean coast.[1] The large and beautiful buildings and the canals and public roads of the times of Mahomedan rule and the arts and industries which distinguished India and attracted to her coasts the adventurous merchants of the West, do not certainly support the

1 See "Four Papers on Commerce and Statistics" by Mr. D. E. Wacha.

idea that the Indian spiritual ideal is such as to militate against the prospect of her attaining material prosperity.[1]

Far from this idea being accepted as a sort of compliment, certain Indian scholars have strongly resented the stigma cast upon Indian civilization and Indian character, and they have demonstrated from facts recorded in documents that for several centuries India was in the vanguard of material as well as of spiritual development. People are obsessed by the glamour of modern western civilization and are depressed by the stagnation they see all round in India, into forgetting the glories of the past history of this country and into thinking that this state of things has prevailed here from olden times. But this is a mistake and the fact must not be ignored that India played a conspicuous part in the development of human civilization which compares favourably with the contribution to progress made by any other nation.[2].

1 Ruskin's exhortation to his countryman to return to the gorgeous East their borrowed ideas about possessive wealth, is an interesting commentary on the opposite view. He says :—'Nay, in some far away and yet undreamt-of hour, I can even imagine that England may cast all thoughts of possessive wealth back to the barbaric nations among whom they first arose, and that while the sands of the Indus and adamant of Golconda may yet stiffen the housings of the charger, and flash from the turban of the slave, she as a Christian mother, may at last attain to the virtues of a Heathen one, and be able to lead forth her sons saying—'These are My Jewels.'—Unto This Last

2 "Much of the prevalent notions regarding the alleged inferiority of the Hindu genius in grappling with the problems of this mundane sphere and the extra proneness of the Indian mind to metaphysical and impractical speculations, can vanish and be proved to be the results of malobservation and non-observation leading to 'half truths which are really whole errors'—only if we apply the historic-comparative method in studying Indian facts and phenomena. For all indologists should remember that the wonderful achievements of the western nations are strictly speaking only a century old. So that if, while instituting a comparison between Hindu and Occidental cultures on the score of physical 'sciences' properly so called, and applied arts and industries, care were taken to eliminate from one's consideration the triumphs and discoveries of the last few generations, the Hindu scientific intellect would be found to have been in no way lagging behind".—Sacred Books of the Hindus : Vol. XVI.

The economic condition of England and the organization of British industries were revolutionised in the beginning of the nineteenth century by the use of steam power and the installation of machinery, and Great Britain entered upon a career of industrial prosperity, which made it pre-eminent among the nations of the world. But before the mechanical inventions of the close of the eighteenth century and the inauguration of the factory system in England, in the beginning of the nineteenth century, the material condition of that country and its civilization were by no means superior to those of India. For a long time the arts and crafts of this country held their own against British manufactures though the latter were supported by machinery, steam power and a national policy of protection. Observers in the eighteenth and the early part of the nineteenth century, were impressed as much with the manufacturing skill and productive capacity as with the mild disposition, simple habits, polished manners and the religiousness of the Indian masses and Sir Thomas Munro, for instance, spoke of Hindu civilization in terms of genuine appreciation and placed it upon a higher footing than the civilization of his own country.[1]

14. Religion and Material Progress:—It is true that Indian philosophies and Indian religions have taught that this world is an illusion and that the goal of man

1 "I do not understand what is meant by the civilization of the Hindus; in the higher branches of science, in the knowledge of the theory and practice of good government, and in education which, by banishing prejudice and superstition, opens the minds to receive instruction of every kind from every quarter, they are much inferior to Europeans. But if a good system of agriculture, unrivalled manufacturing skill, a capacity to produce whatever can contribute to convenience or luxury; schools established in every village for teaching, reading, writing and arithmetic, the general practice of hospitality and charity amongst each other; and above all, a treatment of the female sex full of confidence, respect and delicacy, are among the signs which denote a civilized people, then the Hindus are not inferior to the nations of Europe; and if civilization is to become an article of trade between the two countries, I am convinced that this country (England) will gain by the import cargo." Quoted by R. C. Dutt in his 'Economic History of British India.'

should be total emancipation from the thraldom of egoism. The teaching of Christianity too may, however, be shown to be essentially of the same kind [1] and it has not stood in the way of the endeavours of Christian nations to attain material prosperity. Several precepts of Christianity and the conduct of devout Christians before the epoch of the Renaissance and even in later times, bear a striking resemblance to the doctrines of Hinduism and the ascetic tendencies of its followers of which so much is made.[2] The *Nirvana* of Buddhism may be regarded as even more depressing and antagonistic to material pleasures, but it did not prevent Buddhistic emperors and their subjects from making remarkable progress in politics, arts, architecture and industries. The fact is that, though asceticism and a subordination of the body to the spirit, have been universally held as high ideals, they have rarely influenced in that direction the life of the mass of people in any country and at any time. The spiritual ideal is highly cherished but is seldom translated into action on any large scale though it exercises no small influence upon individual life and social customs. In Puritan England and

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1 "Christianity as a religion is entirely spiritual, occupied solely with heavenly things ; the country of the Christian is not of this world. He does his duty indeed, but does it with profound indifference to the good or ill success of his cares. Provided he has nothing to reproach himself with, it matters little to him whether things go well or ill here on earth. If the State is prosperous, he hardly dares share in the public happiness, for fear he may grow proud of his country's glory ; if the State is languishing, he blesses the hand of God that is hard upon his people "—Rouseau's *The Social Contract.*

2 "As a matter of fact, it is not only the question of war that raises a difficulty between the ideals of Jesus and the traditional practice of the Churches ; the problems of justice and law, of crime and coercion, of marriage and divorce, of industry and thrift, of wealth and commerce in all their forms, are raised in the most uncompromising way by the Sermon on the Mount, which challenges the whole structure and practice of civilized society......If by "Christian," we are to understand a literal interpretation and carrying out of all the precepts attributed to Jesus there never has been and there is not at present, any Christian Church existing on a large scale or influencing national affairs ; still less has there ever been, or is there now, a Christian state."—Alfred Loisy : " The War and Religion."

in Budhist India it was, for a time, reflected in social life, but a reaction against it soon followed, thus demonstrating the inherent human love for material pleasures. If individuals and nations had been dominated by philosophic speculations and noble religious ideals, there would have been no wars in Europe. This is a statement of facts and not a justification of tendencies.

15. Spiritual and Material.—We are told that the glaring divergence between the precepts of religion and the conduct of its followers does not prove the futility of the former, but a failure of the latter to understand it and act up to it. Religion has to be properly interpreted and adjusted to the position and requirements of the people. Churches and priesthoods, philosophers and moralists, saints and prophets have in all ages and in all countries, laid down precepts for human ideals and conduct in this world, and they have gone under the all-embracing name of religion, which has been one of the greatest influences that have moulded mankind. But changing human life has itself modified religion in its practical aspect and this tendency has a very important bearing upon the consideration of the relation between economic activities and religion. It is, therefore, misleading to represent the Indian people as formed of a stuff and cast in a mould different from those of other races and communities, and the contrast, based upon the divergence between the existing conditions in India and those which prevail elsewhere, reflects characteristics which are not fundamental and permanent but accidental and evanascent.[1]

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1 "It is true that in most countries persons will be found who do not wish to have such possessions of their own, and the number of such persons is probably larger in India than in Europe, because of the tendency to adopt an ascetic way of life; the sincere *Sanyasi* or *Fakir* is distinguished from the rest of us mainly by the fact that he does *not* want to possess things of the kind which we have named. But even in India sincere ascetics form only a very small proportion of the population, and leaving them out of account it is correct to say that ordinary people want to possess the same kinds of things, and among the things they want are those which we are considering."—W. H. Moreland : "An Introduction to Economics."

In India itself, the scope and the character of the spiritual and the material have always been correctly understood and the apparent conflict between the two has been satisfactorily disposed of. The controversies over the teachings of the Bhagvadgita which recently assumed an acute form in Maharashtra, are significant in this connection and prove that the gulf between the ideals of renunciation and action, has been bridged. The Hindu Shastras have enjoined upon the house-holder the performance of his proper duties which it would be a sin on his part to neglect, and the home and family life are invested with a peculiar sanctity. If the Indian people, as a whole, are therefore, distinguished from others, it is not by their anti-social, non-economic and other-worldly tendencies but by their well-balanced life, their overpowering consciousness of duty to the community which is a valuable corrective to extreme individualism, and by their self-restraint that tempers extravagance, greed and evil-doing.

16. East and West:—It is said that the complete absorption of the individual in the universal soul and man's emancipation from the fetters of the material world, is the ideal of the Hindu religion which dominates individual and the communal life in India. But it is in reality the unique merit of the philosophy and the religious and the secular literature of the country and particularly of works like the Bhagvad-gita, the Gospel of the Hindus,[1] that they have reconciled the material to the spiritual and

1 "The Hindu has no doubt always placed the transcendental in the foreground of his life's scheme but the Positive Background he has never forgotten or ignored. Rather it is in and through the positive, the secular, and the material that the transcendental, the spiritual, and the metaphysical have been allowed to display themselves in Indian culture history. The *Upanishads*, the *Vedanta* and the *Gita* were not the works of imbeciles and weaklings brought up in an asylum of incapables and a hospital of incurables '—The Sacred Books of the Hindus: Vol. XVI

have spiritualised the material. This fact is not generally properly understood, and hence the prevalent misconceptions and exaggerations relating to this subject.[1]

The physical features of the country which a community occupies and the general conditions in which it lives and moves, exercise a considerable influence on the character which the people develop and the civilization which they create. And whatever depressing effect climatic conditions and the lavish bounties of nature may appear to have produced upon the Indian races when they are compared with people occupying colder regions, the former do not essentially differ from other communities so as to constitute a type insisted upon by Kipling. The abounding natural resources of India did not certainly require her people to keep up with nature a

1 A more ardent and faithful exponent of Indian ideals and Indian culture than Sir Rabindranath Tagore, it will be difficult to find, and while in Japan recently, he observed to an American interviewer thus:—

"You ask me to characterise the difference between the Eastern and the Western outlook. That is very difficult although the difference is very real. In the East we are conscious through all individual things of the infinity which embraces them. When I was in England I felt there was an incessant rush of just individual things upon me, it was not a question of noise and bustle and haste only, but the whole atmosphere lacked the sense of infinity. Upon me it had the effect of hampering reflection and meditation. No, I should not describe the difference as one between spirituality and materialism, though that is the way it is often put. I have known too many noble and devoted men in England who practise renunciation and self-sacrifice and strive for humanity to deny you Western civilisation spirituality. No country could stand the shock of this war if it lacked spirituality. But it is a different kind from ours. It is not penetrated as is ours, with th abiding sense of the infinite.

"Do I think that Eastern thought, the Eastern outlook, can be reconciled with the mechanism of Western civilisation? I think it can and must be. In the East we have striven to disregard matter, to ignore hunger and thirst, and so escape from their tyranny and emancipate ourselves. But that is no longer possible, at least for the whole nation. You in the West have chosen to conquer matter, and the task of science is to enable all men to have enough to satisfy their material wants, and by subduing matter to achieve freedom for the soul. The East will have to follow the same road, and call in science to its aid."

constant struggle for existence and they led them to easy contentment. But it is interesting to note that Indian religions and philosophies are held responsible for the unprogressive character of the people of this country who are supposed to be under the influence of an ideal of pessimism and renunciation. This opinion is largely held by Indians as well as non-Indians and it is necesary to have clear ideas on the point. [1]

With regard to this view of the ideals of passivity, pessimism and renunciation of the Hindus and their influence on the Indian character, we may repeat that it is a dangerous half-truth at best and that the evidence of past history and present experience is entirely against it. It is indeed true that the Upanishads—the Vedanta philosophy—and Budhism which looked down upon the pleasures

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1 "The asectic ideal, which holds in contempt this world and its interests has exercised for centuries past a dominating influence on the Indian mind. It has not, it is true, sufficient reality and strength in it to permanently wean men away from the world, and it proved of little efficacy in diminishing selfishness and pettiness. But it nevertheless produced a baneful result. It took zest out of life. The fashion which it created of talking disparagingly of mundane affairs, operated in no small degree in bringing about our political degeneration and industrial decay.—Presidential Address, Indian Industrial Conference, 1908.

"The ethical ideals of the Indians ars adverse to industrial development on a large scale inasmuch as they discourage and dissociate industry (except agriculture) from culture. It is true that these ideals are being superceded by western ideals of material development in India but they still influence large sections of our community to a great extent and thus the chief motive impulse which impels people to acquire wealth has much less force in India than in the West."—Pramatha Nath Bose : 'A History of Civilization under British Rule.'

A keen consciousness of the myriads of years with countless changes, has been impressed upon a great bulk of Hindu population to an extent of which Western people cannot have the least idea. How these ideas govern the life of the Indian middle class, is something which cannot possibly be conceived by other races. Under this psychic condition a man may ask as to what his duty is. And he will answer to himself that his duty is nothing, Whatever may happen, the ultimate end of all existing objects, whether living or lifeless, is to be reabsorbed in the absolute."—S. V. Ketkar : "Indian Economics."

of the senses and exalted spiritual bliss and contentment at the cost of material desires and social affections, had a tendency to emasculate human energy and effort towards betterment. But it is a mistake to suppose that the metaphysical speculations were intended for and had any abiding effect upon the people or that they turned the mass of the population into pessimists or Sanyasis. The Dharma taught by Hindu philosophers and preceptors, enjoined duties upon people which were calculated to make life in this world happy as well as to prepare them for the next.

As we have observed already, there is abundant evidence to prove that till the use of steam power and machinery revolutionised the processes of industry in England, India could more than hold her own against western nations in the matter of all the means of material prosperity, and foreigners from the time of Megasthenes down to recent times have always been impressed as much by the material civilization of India as by its philosophies and religions.[1]

17. Reconciliation :—The so-called ascetic ideal of India did not stand in the way of the political, industrial

1 Burke, for instance, spoke of the Indian people, towards the close of the 18th century in the following words :—" This multitude of men does not consist of an abject and barbarous populace, much less of gangs of savages like the guaranies and chiquitoes who wander on the waste borders of the river of Amazon or the Plate ; but a people for ages civilized and cultivated by all the arts of polished life while we were yet in the woods. There have been (and still the skeleton remains) princes once of great dignity, authority and opulence. There are to be found the chiefs of tribes and nations. There is to be found an ancient, venerable priesthood, the depository of their laws, learning and history, the guides of the people while living and their consolation in death , a nobility of great antiquity and renown, a multitude of cities, not exceeded in population and trade by those of the first class in Europe ; merchants and bankers who have once vied in capital with the Bank of England, whose credit has often supported a tottering state and preserved their governments in the midst of war and desolation ; millions of indigenous manufacturers and mechanics, millions of the most industrious and not of the least intelligent tillers of the earth."—Speech made in introducing the East India Bill.

and commercial development which went on for centuries under Hindu, Budhist and Mahomedan emperors and kings. Works on Nitishastra, Dharmashastra and Arthashastra compiled centuries ago, embody principles and laws concerning administration, social organization and economic functions, and demonstrate beyond the shadow of a doubt how these matters were viewed from the point of view of communal and individual welfare and how the spiritual and the material aspects of human existence were satisfactorily harmonised by the teachers and the statesmen even of remote antiquity. From the time of Kautilya's Arthashastra to Abul Fazle's Ayeen Akbari, the administration of kings has been inspired with the solicitude to promote the material and moral well-being of the subjects and the prosperity of the rulers. Shivaji, a devout Hindu, a disciple of Saint Ramadas and an admirer of Saint Tukaram, laid the foundations of the Maratha kingdom with the assistance of leading men of different castes who were all under the spiritual influence of the saints and prophets of Maharashtra, and Brahmin warriors like the first Bajirao under similar influences, built up the Maratha empire. The Hindus had their civil and military administration, their wars and treaties, their palaces and pleasure gardens, their luxuries and superfluities. Pursuit of wealth and glory took the Hindus thousands of miles away in the north and the south, and this does not look like an indication of the influence of the ideal of renunciation. If they did not start large factories and banks and did not carry on industries on a large scale, none of the western nations also did it till the close of the eighteenth century. What is said of Hindu ideals to-day can be said of the ideals of western races during the middle ages and three centuries succeeding them, and of some European people even to-day.

In attributing the present economic condition of the country to depressing Hindu ideals, it must not be forgotten that a large portion of the Indian population is non-Hindu and is not hampered by those ideals; but the latter has not shown greater economic activity. The statement of the view we have been discussing, is, therefore, a

sweeping generalization and is not warranted by the facts of history and the tendencies of the present day The economic condition of to-day and the popular attitude on life in India are only a passing phase, a stage of arrested development and of transition from one social economy to another The fact is that no religion is more tolerant, elastic and adaptable than the Hindu religion and no philosophy is more comprehensive and adjustable to varied and varying situations than the ancient Hindu philosophy which inspires social life in India; and they do not and will not place obstacles in the path of the material and moral development of the people. Social institutions like that of caste may impede progress for a time and rooted prejudices will require some shaking; but they can be and have been moulded to suit modern requirements

The acquisitiveness, the impulse which propels individuals to acquire and accumulate wealth, competition, restlessness, ambition, and other industrial and militant qualities of the people of Europe and America are a growth of the last two centuries. Western nations had to go through different stages of economic growth before they attained the present phase of their evolution. India, with her glorious history of more than three thousand years, may have to tread the same path to come in a line with other nations, and it is wrong to throw the blame of her degeneration upon her religion and her culture. It is interesting to notice, in this connection, that India's decay is attributed by the champions of orthodoxy to the adoption by people of modern ideas and of western modes of thought and of conduct! And a revival of the past is preached as a remedy for the present national ills. The true reformer, however, wants a revival of the ancient spirit of enterprise, sacrifice and duty and not of old usages and institutions.

Some of the wealthiest and most enterprising Indian manufacturers and merchants of to-day are people who are little tinctured with western civilization. Several of the Indian capitalists, mill-owners and traders who have adopt-

ed western methods of making money, are evn renowned for their staunch orthodoxy in religious and social matters. The Marwaris, the Jains, the Bhatias, the Khojas and the Memans who are so remarkable for their enterprise and acquisitiveness have had little benefit of English education, and in fact, it is notorious that the small section of the population who have imbibed western culture and are trying to assimilate it, have, with the exception of the Parsees, practically no share in modern wealth-production. It is thus the unwesternised, unenlightened and uncultured classes, fully under the influence of old religious ideas, social customs and prejudices that are in the front rank of commerce, banking and manufactures carried on on western lines, quite out of harmony with supposed Hindu or Muslim ideals. It is the modern methods of the production, exchange and distribution of wealth that have imposed on the west a peculiar stamp of modern civilization, and the rise of large industries and the growth of crowded cities in our midst, prove that Indians can adopt those methods without doing injury to old Hindu ideals. This point is clearly brought out by the impression the present day Indian carrying on petty trade or industry in the African and other colonies, produces on the European mind accustomed exclusively to Western ideas and habits.[1]

18. Indian Spiritualism.—Is Indian spiritualism then a myth? Are the noble Indian ideals of life, so often

1 "The Indian is a gentleman whom, for many reasons, I hold in high esteem, generally speaking. He is not ashamed of his religion nor of his business or trade, and I believe the honest Indian has an equal respect for the honest Englishman......As far as we, Englishmen, can see, he is British to the backbone, quiet, unassuming in his general bearing, a hard nut to drive a bargain with, as economical as the proverbial scotchman in business, but outside that, liberal to a degree in his presents to those with whom he has done business......The Indian was a trader, and an able one, when we English were dressed in woad and wore stone hatchets, and the "hundi" system was [illegible]ed long, long before a bill of exchange was ever written. It [illegible] said that an Indian was the first to discover the Victoria Nyanza."—Mr. W. H. Hooker: The Handicap of British Trade with special [illegible] to East Africa.

extolled, only imaginary? No! Hindu philosophy does teach the subordination of the flesh and the subjugation of the passions. Wealth and all other affairs pertaining to this world are spoken of in terms of depreciation as a delusion and a snare, and people are exhorted to emancipate themselves from the tyranny of desire. Absorption into the infinite is made the goal of human existence and it is to be attained by renunciation. This teaching of philosophy has not, however, made the Hindus monks and anchorities because their practical religion, at the same time, enjoins on them certain duties in this world peculiar to their station in life and their age.

The *Vedas* bespeak a vigorous race of Aryans occupying the north-western parts of the land, and evincing a lively desire to possess the goods of this earth and a keen enjoyment of woldly pleasures. There was a reaction at a later stage of development among them, and 'the strong love of the active virtues of fighting and hunting, chivalrous regard for women and the enjoyment of the pleasures of life generally, gave way to a philosophy which regarded life and being itself as a pain and calamity, the bustle of the arts of peace and war as unrelieved weeping and lamentation.'[1] But the new ideals never fastened themselves on the mass of people and remained as ideals for the few, only to be respectfully admired by the many as unattainable by common mortals. 'Business is business,' is a motto as much with the Indian trader as with his western brother. It does not mean dishonesty, but it does not mean renunciation either. And Hindu law-givers, teachers and philosophers, far from turning their backs upon this world, regard perpetuation of the race, maintenance of the family and the creation and

1 Miscellaneous Writings of Mr. Ranade.

enjoyment of wealth as essential functions which human beings must perform.[1]

The *Dharma Sutras* assign a high place to the status of a house-holder and the *Smriti* writers lay down injunctions as to the regulation of individual and social life in all its spheres. They do not see any conflict between the every-day affairs of the world and the conclusions of philosophy and the tenets of religion. On the contrary, they emphasise the harmony of the two and in this reconciliation lies the secret of the peculiarity of the religious ideas of the Hindus. The *Bhagvadgita*[2] distinctly prefers a life of work and disinterested service to that of renunciation and thus anticipates the approved precepts of modern Ethics. The Indian Epics, the *Mahabharata* in particular, the Indian dramas and Indian poetry, are all pervaded by these same notions. Indian culture became decadent[3] in the Medieval Age and with a flash here and there, Indian society became stagnant thereafter. The renaissance has, however, already commenced and holds out bright prospects for the near future.

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1 'We find that Manu has preference for *Sanyasa*, but he reconciles it with the claims of life, its duties and responsibilities, by assigning different periods of life for the fulfilment of those claims. His Ashrama-Vyavastha or the systematic regulation of duties during different periods of life, makes room for the life of a zealous, loving, enjoying, struggling, helping, aspiring house-holder when the senses are keen and limbs vigorous and for a life of a retired, calm, balanced, contemplative *Sanyasi*, when senses are benumbed and life shorn of much of its novelty and charm.'—A Gist of the Gita Rahasya by Mr. V. M. Joshi.

2 The Divine Song 'Is meant to lift the aspirant from the lower levels of renunciation, where objects are renounced, to the loftier heights where desires are dead, and where the Yogi dwells in calm and ceaseless contemplation while his body and mind are actively employed in discharging the duties that fall to his lot in life. That the spiritual man need not be a recluse, that union with the divine life may be achieved and maintained in the midst of worldly affairs, that the obstacles to that union be not outside us but within us—such is the central lesson of the Bhagvad-Gita'.—Preface to Mrs. Annie Besant's Translation of the Bhagvad-Gita.

3 See Havel's Aryan Rule in India.

It will thus be clear why the Hindu ideal of renunciation has not turned the Indian people into recluses and how it has only placed the obligation of duty in this life on a higher plane. Hindu philosophy speaks more of duties than of rights and has idealized life; and the ideal has exercised a regulating, restraining and guiding influence upon the people. This is the Indian spiritualism which has baffled[1] western observers and thinkers and misled them. In the works of poets like *Kalidasa*[2] we see the effect of this gospel of disinterested duty on the every-day life of the people, and that influence has been at work throughout the whole history of India. The problem before India now is how to adapt herself to changing conditions without falling into the errors into which the west has undoubtedly fallen. While the West has rushed headlong into modern commercialism assisted by the triumphs of physical science, India has stagnated and is suffering from the evils attendant on arrested growth. It is indeed desirable that she should assert her old ideal and resume her career of development. But there is danger of apathy, born of stagnation, being mistaken for spiritual calm and of mental depression, resulting from national decay, being misunderstood as philosophic resignation.

Can India assimilate whatever is good in western civilization, "its high individual development, its energetic

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1 When western students first applied themselves to the study of Indian philosophies and religions, they were struck by the strange theories and practises of the country. Some were perplexed by them, others condemned them as low superstitions and a few were lost in admiration of Indian spirituality and culture. Mrs. Besant said in 1893.—" For India's future lies not in political ambition, India's future lies not in political greatness: India's progress is as a spiritual nation, as the teacher of the world in spiritual truth. Even to-day she stands as a witness against materialism..."—The Birth of New India, page 59.

2 'Raghuvamsa.'

activity, its clean and successful methods and its complete system of machinery" without sacrificing the essence of her own culture? To many thinkers[1] this is India's mission.[2]

It is believed and stated that India was great when she was spiritually strong. May it not be said that India was spiritually strong when she was great? And may we not hope that India will maintain her spirituality while she will grow in material prosperity?

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1 See Rabindranath Tagore's 'Nationalism'.

2 " It may be the mission of India, clinging fast to the philosophic simplicity of her ethical code, to solve the problems which have baffled the best minds of the west, to build up a sound economic policy along modern scientific lines, and at the same time preserve the simplicity, the dignity, the ethical and spiritual fervour of her people. I can conceive of no loftier mission for India than this; impart purity of life to Europe and attain to her loftier political ideal; inculcate spirituality to the American mind and imbibe the business ways of its merchants".—His Highness the Gaikwar's Presidential Address, Industrial Conference, 1906.

CHAPTER III.

Gifts of Nature.

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19. Importance of Production.—It being admitted that the promotion of the welfare of the people in India as in other countries, depends upon the wealth they possess, the main problem which demands consideration is how to increase the supply of the necessaries of life and of comforts which fall to the lot of the different classes of the population. Whether the income per head of the population in India be Rs. 30 or Rs. 50, the poverty of the country is an undisputed fact.[1] We no doubt hear of poverty and distress in all western countries and of the endeavours which are being made there to cope with the evil. But the economic problem in India in this respect is quite different from the one that confronts other nations.[2]

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1 "Poverty in England, or America or Germany is a question of the distribution of wealth. In India it is a question of its production ...... Suffice it to say that if it (the income) has mounted to any considerable degree since the Commissioners in 1880 estimated it at £ 2 per caput, it is still infinitely below that of any of the leading nations in Europe, if not actually the lowest in the world."—Loveday: The History and Economics of Indian Famines.

2 It cannot be said of India as it has been said of England (H. R. Hodges: Economic Conditions: 1815-1914.) that 'the past has been devoted to the accumulation of wealth, the future is to its more equal distribution.'

Distribution of wealth in India is not, of course, ideal, and will demand greater attention with the rapid development of large-scale production. Wages of labour must certainly rise and the working classes in India are, in fact, becoming conscious of what is due to them and of what they are defrauded by their adherence to custom. But in order that the share of the workers of different grades and kinds may be increased, the total national income must, in the first place, be considerably augmented, and it must keep pace with the steady growth of population and the requirements of a higher standard of living. By what means this end shall be attained is, therefore, the important problem which demands solution. The present standard of life of the bulk of the people in India is extremely low. Their homes, their food, their clothing, their health, their education, are all unsatisfactory and need radical improvement. The wretchedness, squalor, poverty and depressed mentality which prevail in the country, require wealth-production on a larger scale so that the elementary wants of the people may be satisfied and opportunity may be provided for an improvement of the standard of living.[1]

20. Natural Conditions.—Land, labour and capital are the three essentials of production, and to increase their supply and to make them more efficient, is to provide for a larger production of wealth. In this chapter, we propose to deal with the first of these factors of production, viz. land, which means not only the crust of earth lying upon the surface of our globe, but all natural phenomena and surroundings like the climate, the existence of minerals in the bowels of the earth, forests, rivers and lakes &c., which all play a part in the production of wealth. Civilized

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1 " The first consideration is that India is a very poor country. The people as a whole want a large increase in wealth to satisfy their most urgent wants : many of them want more nourishing food, better s, better houses, better health, better education, to name only a few of these wants : and any system of production that will give a large increase of wealth is desirable because it will give a chance of satisfying some of these most urgent wants. "— W. H. Moreland : An Introduction to Economics.

man conquers the forces of nature and bends them to his use. But individual and national character is largely shaped by man's natural environments, particularly in the early stages of progress. In the last chapter we discussed the relation between the material development and the religious ideas of the Indian people, and without attempting to interpret the history of the political and social institutions and the economic practices of India in the light of the country's natural conditions, we may state that the latter have visibly stamped themselves on the life of Indian communities.

The size of the country and the variety of mountain and plain, of heat and cold, of dryness and moisture and of fertility and dreariness that prevail in it, must be carefully noted. British India extends from E. long. 61°, 40′ in the extreme west to E. long. 101° 15′ in the east and from N. lat. 37° in the north to N. lat. 8° in the south. The big mountain ranges in the north west, the north and the east dominate the large plain of Hindustan which has been filled with the fertile aluvial soil washed down by the Indus, the Ganges, the Jumna and the Brahmaputra. The plains of Hindustan and southern India have the advantage of a copious supply of water provided by the large rivers and of the underground supplies tapped by means of wells; and they contain very dense populations compared with other parts of the country. On account of its large rivers and rich soil the great plain of northern India became the home of ancient Aryan civilization and the birth-place of religions and empires.

The Vindhia mountains and the system of hills connected with them separate northern from southern India with its large Deccan plateau. 'The Deccan rivers, like most rivers in plateau regions, flow in deep gorges and are therefore of little value for either irrigation or communication and it will be seen that there is no town of any size or importance on any of the Deccan rivers.'[1] From the above mountains run, towards the south and parallel with the sea, the ranges of the western and eastern ghats, the

1 C. B. Thurston: *Economic Geography of the British Empire.*

former cutting off a narrow strip of territory from the rest of the peninsula and the latter leaving a broad piece of land irrigated by rivers like the Mahanadi, the Godavari, the Krishna and the Kaveri and thus accessible to the influence of material civilization. The western ghats produced the hardy, struggling Marathas, the eastern ghats provided centres for wealthy kingdoms and empires. Lower Burma partakes of the physical features of lower Bengal and Upper Burma is full of hills and is less fertile. Apart from the social characteristics which distinguish the people occupying different parts of the country, varieties of climate determine their productive activities, their staple crops and their food and clothing. Wheat, which requires a cool climate, is the staple crop of north-western India, rice is grown in the warmer and the damper parts of the country like Bengal and south India, and the millets and other grains are produced almost everywhere. Different climates and soils are congenial to the production of particular crops and thus industries like those of jute, cotton, indigo, tea, sugar &c.have been localized in certain provinces. Rice cultivation predominates in Bengal, Bihar and Orissa, Madras and Burma. In wheat production, the Punjab occupies the place of honour, the United Provinces the Central Provinces and Bombay coming after it at a long distance. Bombay and Madras are the principal producers of Jawar and Bajra. Madras, the United Provinces and the Central Provinces are the principal producers of oil seeds. The United Provinces have the largest area under sugar-cane and therefore a flourishing sugar industry, while the other Provinces have just enough cane cultivation to yield them the raw sugar required, refined sugar being imported from outside. Bombay, the Berars, Madras and the Punjab have practically a monopoly of cotton production and Bombay leads in cotton manufactures. Jute cultivation and Jute factories are the monopoly of Bengal. Indigo cultivation is shared between Bihar and Madras and other dye materials are contributed mainly by Bombay. Tea is grown in Assam and Bengal; Coffee in Madras and Coorg. The accompanying tables show the distribution of the different crops over various Provinces in India.

Areas under different crops in 1913—14 in each province.

Provinces.	Rice.	Wheat.	Barley.	Jawar or Cholum.	Bajra or Cumbu.	Ragi or Marna.	Maize.	Gram (pulse.)	Other food grains & pulses.	Total food grains & pulses.
	Acres	Acres.	Acres.	Acres.	Acres.	Acres.	Acres.	Acres.	Acres.	Acres
Bengal ...	19,735,200	144,100	93,800	2,400	6,400	15,000	92,500	197,700	1,287,400	21,574,500
Madras ...	10,679,400	24,000	3,100	5,789,500	3,273,400	2,490,000	123,900	166,400	6,892,700	29,442,400
Bombay { Presdy. ...	1,908,500	1,454,200	23,300	6,808,400	5,257,900	660, 00	160,500	479,100	2,687,400	19,439,400
Bombay { Sind ...	105,400	456,100	27,900	691,000	1,110,500	400	1,500	27,800	235,200	3,725,800
United Provinces { Agra .	4,015,500	4,541,900	3,306,100	1,758,400	1,757,500	165,300	1,296,400	2,144,700	4,322,900	23,308,700
United Provinces { Oudh ...	2,158,400	1,898,800	1,121,700	304,600	430,500	47,100	842,500	892,700	2,165,300	9,861,600
Bihar and Orissa ...	16,233,500	1,342,300	1,305,200	128,800	74,900	952,200	1,714,100	1,078,600	4,375,200	27,204,900
Punjab ...	800,500	8,472,500	969,800	1,247,500	2,829,200	20,500	1,082,400	2,849,400	1,409,500	19,681,300
Burma { Upper ...	2,089,800	245,000	...	550,800	[illegible]	.	160,500	40,900	112,400	3,204,200
Burma { Lower ...	8,313,100	..	..	...	..	...	22,000	1,200		8,336,300
Central Provinces ...	4,958,400	2,989,500	83,001	1,653,800	40,900	13,900	149,500	1,037,200	[illegible]	14,633,500
Berar ...	27,700	278,100	100	2,265,800	104,800	.	1,800	103,300	627,200	3,409,300
Assam ...	4,755,500	...	...	.	...	1,900	19,100	..	103,800	4,880,300
North-west Frontier Province.	43,30	1,030,600	290,800	102,600	192,800	...	431,200	199,300	115,100	2,406,200
Ajmer-Merwara ...	[illegible]	6,000	45,500	69,400	29,700	100	66,500	1,400	15,900	234,700
Delhi ...	400	19,800	10,600	36,500	51,700	...	15,000	6,100	15,700	136,300
Coorg ...	82,500		...	...	..	4,200	...	100	1,200	88,000
Manipur Pargana ...	100	2,100	..	1,900	...	..	1,000	800	100	6,000
Total ...	[illegible]	22,685,000	7,206,200	21,405,400	13,185,500	4,370,700	6,166,900	9,296,700	28,149,100	191,573,400

Areas under different crops.

Provinces.	Linseed.	Sesamum. (tie or jinjili.)	Rape and Mustard.	Ground-nut.	Other oil seeds.	Total oil seeds.	Condiments and spices.	Sugar-cane.	Sugar-other.
	Acres.	Acres.	Acres.	Acres.	Acres.	Acres.	Acres.	Acres.	Acres.
Bengal ...	195,100	239,600	1,3?1,700	...	48,500	1,804,900	150,060	216,500	60,100
Madras ..	20,900	80?,300	...	...	2,346,500	3,?77,700	606,400	?3,600	28,300
Bombay { Presidency ...	1,689,000	272,100	6,700	201,?00	333,700	932 400	167,100	59,900	300
Bombay { Sind ...	...	86,600	354,700	...	4,700	446,000	6,500	?,600	2,200
United Provinces { Agra ...	176,?00	353,?00	90,000	5,500	14,300	638 700	64,700	1,153,700	...
United Provinces { Oudh ...	52,200	25,100	63,500	5,500	400	146,?00	11,700	235,600	...
Bihar and Orissa ...	652,900	219,900	751.900	...	389,900	2,014,600	82,800	262,9?0	300
Punjab ...	38,300	146,800	1,002,900	...	900	1,188 500	26,300	410,800	...
Burma* { Upper ...	...	1,146,900	200	242,100	400	1,389,600	?0,300	2 300	23,800
Burma* { Lower ...	...	85,800	3,400	5,100	200	94 500	21,100	12,800	800
Central Provinces	888,900	766,000	25 700	1,700	366,600	2,068,900	48,400	19,400	...
Berar ...	63,200	79,700	1,200	1,700	52,800	198,600	21,100	1,000	...
Assam ...	12,500	8,100	311,200	...	...	331,800	2,600	37.900	...
North-west Frontier Province ...	100	7,800	144,400	...	4 100	156,400	?,200	51,800	...
Ajmer-Merwara ...	400	10,900	...	...	500	11,800	1,300	?00	...
Delhi ..	...	100	3,500	...	...	5,600	700	9,5000	...
Coorg ..	...	200	100	...	...	300	3,600	...	...
Manipur Pargana ...	100	300	...	...	200	600	...	...	...
Total ...	2,268,800	4,278,900	4,083,100	463,500	3,563,700	14,658,000	1,289.800	2,541.600	165,800

Areas under different crops.

Provinces.	Cotton	Jute	Other fibres.	Total fibres.	Indigo	Other dyes.	Opium	Tea.	Coffee.
	Acres.	Acres.	Acres.	Acres.	Acres.	Acres.	Acres.	Acres.	Acres.
Bengal ...	26,200	2,716,000	36,300	2,778,500	1,200	...	...	153,[illegible]00	...
Madras ...	2,696,600	...	308,200	3,004,800	55,300	3,200		26,800	43,500
Bombay, Presidency ...	4,122,000	...	142,300	4,2[illegible]4,[illegible]00	...	403,200	...	...	...
Bombay, Sindh ...	332,600	...	800	333,400	2,500	600	...	...	...
United Provinces, Agra ...	1,451,200	...	154,100	1,605,300	19,300	200	92,400	8,000	...
United Provinces, Oudh ...	96,400	...	34,400	130,800	4,900	...	75,500	...	...
Bihar and Orissa ...	73,600	318,300	20,800	412,700	63,100	9,700	...	2,200	...
Punjab ...	1,826,500	...	55,900	1,882,400	22,800	2,[illegible]00	2,400	9,900	...
Burma, Upper ...	257,900	...	100	258,000	100	...	200	1,800	100
Burma, Lower ...	43,900	...	400	44,300	...	...	...	...	...
Central Provinces ...	1,462,500	...	99,900	1,562,400	...	...	...	...	...
Berar ...	3,29[illegible],900	...	59,800	3,35[illegible],700	...	...	...	...	...
Assam ...	35,200	101,380	200	136,700	...	...	...	367,500	...
North-west Frontier Province	59,600	...	800	60,400	...	...	...	...	...
Ajmer-Merwara ...	58,[illegible]00	...	...	58,100	...	...	...	...	...
Delhi ...	1,400	...	1,100	10,500	...	...	...	...	...
Coorg ...	...	...	200	200	...	...	...	...	42,100
Manipur Pargana ...	700	...	100	800	...	...	...	...	...
Total ...	15,844,300	3,135,600	915,400	19,865,300	169,200	419,400	670,500	572,100	85,700

Areas under different crops.

Provinces.	Tobacco.	Other drugs and narcotics.	Fodder Crops.	Fruits & vegetables including root crops.	Miscellaneous crops. Food.	Miscellaneous crops. Non-food.	Total area cropped.	Deduct area cropped more than once.	Net area cropped.
	Acres.	Acres.	Acres.	Acres.	Acres.	Acres.	Acres.	Acres.	Acres.
Bengal ...	319,400	3,400	123,200	832,600	393,000	286,100	28,699,300	4,430,300	24,269,000
Madras ...	207,800	46,200	226,500	1,195,300	. .	148,900	38,345,700	4,163,100	34,182,600
Bombay { Presidency ...	89,400	25,100	83,500	597,000	1,400	2,500	26,115,500	730,600	25,384,900
Bombay { Sind ...	8,400	100	13,300	40,400	100	6,3200	4,646,[illegible]00	324,600	4,321,500
United Provinces { Agra ...	60,800	1,200	1,057,400	322,900	37,000	8,200	28,721,700	4,404,200	24,317,500
United Provinces { Oudh ...	14,600	1,400	141,100	122,300	4,800	400	10,751,400	1,884,900	8,866,500
Bihar and Orissa ...	115,800	...	22,300	793,800	541,300	338,500	31,864,900	5,917,100	25,947,800
Punjab .	49,400	800	3,713,300	257,900	77,700	8,300	27,328,400	3,070,400	24,258,000
Burma { Upper ...	34,000	1,100	41,500	567,700	...	5,200	5,599,900	482,000	5,117,900
Burma { Lower ...	61,300	38,900	2,000	450,900	...	134,700	9,197,600	44,100	9,153,500
Central Provinces ...	12,100	300	361,500	93,100	1,900	400	18,801,900	1,311,300	17,490,600
Berar ...	14,100	...	700	12,800	2,000	200	7,011,500	21,800	6,989,700
Assam ...	8,500	...	100	407,400	...	114,800	6,415,500	512,300	5,903,300
North-west Provinces ..	5,400	...	101,100	18,200	49,000	6,000	2,837,700	447,800	2,389,900
Ajmer-Merwara	...	...	1,800	600	7,300	1,400	317,300	33,700	283,600
Delhi	[illegible]00	...	20,800	3,900	200	[illegible]00	188,300	18,300	1[illegible]0,000
Coorg ...	...	300	...	4,500	...	...	139,000	800	138,200
[illegible] ...	...	...	...	...	...	...	7,400	200	7,200
Total ...	1,001,700	118,800	5,910,100	5,121,300	1,115,700	1,115,700	246,989,200	27,791,503	219,191,700

Monsoon winds blowing from the south west and north-east bring rains during defined periods of the year, *e. g.* June to September in Bombay; and the other months are wholly dry. The rainfall varies according to the direction and the strength of the sea winds, certain portions of the country, *e g.* Sind, receiving little rain. The soil in certain parts of the country is extremely fertile while in others it is very poor. Many big tracts are entirely subject to the vagaries of the rains, the character of the monsoon in these dry regions, meaning to them either plenty or famine. Some portions of the Deccan plateau come under this description. This variety of fertility and temperature imparts an interesting diversity to the kind, the quality and the quantity of the crops produced in different tracts.

Gold, coal, petroleum, manganese and iron are found in considerable quantities in some provinces *e. g.* coal in Bengal and gold in Myosre, and the mineral production of the country has been steadily on the increase. India is not certainly very rich in her mineral wealth when compared to some other countries but her possibilities in this respect are not yet definitely known and what she possesses is probably enough to satisfy her wants. The resources of the country lie almost undiscovered and untapped, and though minerals have been exported from ancient times, it may be found that after all the surface of the earth has been barely scratched. No doubt the mineral deposits of different kinds are abundant in different countries and are being exploited by improved processes for the benefit of those countries and the world generally. Several industries, however, depend upon a sufficient supply of cheap coal and iron and their size and locality are determined very largely by this factor. The work done by the Indian Munitions Board during the war has demonstrated the encouraging possibilities of the exploitation of India's natural resources and it is hoped that the progress of the country in this direction will be rapid and satisfactory. For centuries India was self-sufficient in the matter of minerals and metallurgy, but foreign competition, based upon more

scientific and efficient methods of production, led to the decline of those industries.[1] The old position may not be regained but the existing one can be materially improved.[2]

How the rivers of India may, by means of canals, be utilized for the irrigation of thousands upon thousands of acres has been demonstrated by the successful irrigation schemes carried out in the Punjab and elsewhere. And the Tata hydro-electric works at Lonavla, showed how motive power, capable of working a number of factories at a distance, could be created by means of water stored in big lakes formed in suitable valleys and fed with the rainfall which may be very heavy there. The question of utilizing the natural advantages the country offers in this regard, has been taken up* by Government and an investigation is being made of suitable sites in different provinces. Many of the rivers in northern India are navigable over long distances, while those in other parts are not; but it is possible to extend this navigation for purposes of transportation by means of canals. Several creeks on the coasts are utilized in this way for conveyance of goods. Owing to its long coast line, India might be expected to possess several harbours, and in the past brisk trade was carried on from many of these with foreign countries. But the use of huge ocean steamers led to the development of a few convenient and large ports like Bombay, Karachi, Calcutta and Ran-

1 "So richly endowed by the bounty of Nature, India from the earliest times of which there is any record down to within a few years of the British occupation was one of the foremost mining countries in the world. She was able not only to meet from her resources her own local wants, but also sent to far-off lands some of the finest products of her mines. For centuries and up till 1727 when Brazil entered the market with its cheaper stones obtained from the mines of Minas Geraes India alone supplied diamonds to the world. The koh-i-noor of the British Crown, the Orloff in the sceptre of the Russian Czar, the Pitts diamond among the State jewels in France, and several others, in the possession of the princes and magnates of Europe, are from our mines. China got her silver from us. Our iron was held to be of superior quality and was much sought after by the foreign merchants. Indian steel was highly prized for its fine temper and found ready sale in the markets of Persia and England."—Mr. Joshi's Writings and Speeches.

2 For the progress of mineral production, see below, page 60.

goon and the old harbours have decayed or are used for small coastal trade. Some of these ports may be improved with advantage and be made serviceable for trade at different points on the coasts.

The forest produce of India too is varied and rich and its economic possibilities are steadily being realised.[1] Excellent qualities of timber and fibres, grasses, distillation products, oil seeds, tans and dyes, gums and resins, rubber, bamboos, canes, drugs and spices are found in these forests which are now, in British India, under State control. Many of these products are calculated to supply valuable raw material for industries, and wood pulp, paper, tanning materials, matches, rosin and turpentine may be made from them on a large scale. Forests are a great national asset and they must be carefully preserved, extended and exploited for the common benefit of the people. The question of sea fisheries is also one that requires attention, and it is being tackled in Madras and Bengal. Production of salt from sea water likewise may be profitably extended and the importance of this was demonstrated during the time of war.

21. Land :—As the most fruitful source of livelihood for men and cattle, the soil has ever been regarded with reverence in India, and the agricultural industry occupies a high place in public estimation. In quite a Physiocratic fashion, the mass of Indian people attribute to the soil almost exclusive productive capacity, and other industries appear to them as more or less parasitical. This is but natural in a social economy in which agriculture predominates, and the deep attachment of the people to the soil, is thus easily accounted for. About 72 per cent. of the Indian population subsists upon agriculture, and with the disappearance of the indigenous industries, this percentage has been steadily growing. Barely one acre of land is available per head of the agricultural population and it

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1 "The development of the economic resources of the Government Forests has not yet received the attention which it deserves and which it will certainly receive in the very near future".—Indian Munitions Board Hand Book, 1919.

would not be surprising if the soil felt increasing pressure. The following figures[1] are instructive in this connection:—

Classification of Area.

(1915-16)

	Acres.
Area by professional survey	619,521,000
Area under forest...	85,079,000
Area not available for cultivation ...	143,930,000
Cultivable waste	113,820,000
Fallow land	51,731,000
Net area cropped...	221,778,000
Irrigated area	48,898,000

The proportion of cropped to total area and the number of population per 100 acres of cropped area in each province are stated below:—

	Proportion of cropped to total area.	Population per 100 acreas of cropped area.
Bombay	52 per cent.	60
Delhi	50 ,, ,,	233
Bihar and Orissa	49 ,, ,,	133
United Provinces	49 ,, ,,	142
Bengal	48 ,, ,,	184
Punjab	40 ,, ,,	81
Madras	38 ,, ,,	121
C. P. and Berar	38 ,, ,,	57
North-West Frontier Province	28 ,, ,,	94
Manipur	23 ,, ,,	92
Ajmeer-Merwara	16 ,, ,,	177
Assam	19 ,, ,,	114
Coorg	14 ,, ,,	127
Sind	14 ,, ,,	11
Burma	13 ,, ,,	74

If areas cropped more than once are taken as separate areas for each crop, the gross area cropped in 1913-1914 amounted to 246, 989, 000 acres and was distributed among different crops as under:—

[1] Agricultural Statistics of India, 1915-16.

	Acres	Per cent. of total.
Food grains	191,573,000	77 7
Condiments & Spices	1,288,000	0·5
Sugar	2,708,000	1·1
Fruits & Vegetables	5,721,000	2 3
Miscellaneous food crops	1,116,000	0·5
Total food crops.	202,405,000	82·1
Oil-seeds	14,658,000	6 0
Fibres	19,895,000	8·0
Drugs	588,000	0·2
Dyes and narcotics	1,949,000	0·8
Fodder crops	5,910,000	2·4
Miscellaneous non-food crops	1,113,000	0·5
Total non-food crops	44,113,000	17·9

To relieve the steadily increasing pressure of the population upon the soil, not much cultivable area is now available, though what is called cultivable waste, may, to a certain extent, be brought under the plough. There are parts of the country, particularly in the Native States, which are awaiting the immigration of farmers to utilize them. But making allowance for this we must say that the supply of land in India is limited and is proving inadequate with the steady growth of population and reliance must, therefore, be mainly placed upon intensive farming.[1]

The fact of the recent increase of the population dependent upon agriculture, is of great economic significance. It is an indication of the decadence of the old handicrafts and the growing dependence of the mass of the people upon agriculture. By some this development is explained as the result of the more remunerative char-

1 "Subtracting the land thus utilised for supplying foreign markets from the total area under cultivation, we shall find that what is left over does not represent more than two-thirds of an acre per head of the total Indian population. India, therefore, feeds and to some extent clothes its population from what two-thirds of an acre per head can produce. There is probably no country in the world where the land is required to do so much."—Peoples and Problems of India by Sir T. W. Holderness.

acter of farming, particularly the cultivation of the commercial crops which command high prices in the outside markets.[1]

This does not appear to us a correct explanation, and it can be proved that artisans and craftsmen who formerly could make a living by their traditional callings, have been driven to the soil by the decay of their ancestral industries, caused by the competition of foreign manufactures and that farming by itself is insufficient to maintain a large number of cultivators' families who have to supplement their earnings by selling their labour to others in different ways.

It cannot be denied that the high prices of agricultural produce such as cotton, wheat, jute and oil-seeds mean a larger margin of profit to the cultivator, and in certain parts of the country, the agricultural population has benefited by the foreign demand. Higher rents are also being paid by cultivators to their land-lords who have secured considerable unearned increments. It must be remembered, however, that Indian agriculturists are not as a class like farmers in the West. Lack of knowledge, co-operation, enterprise and means prevent the cultivators from reaping the full benefit of hige prices and mobility is conspicuous by its absence among them. Non-agriculturists will not take to land unless they are forced to do so by the grim prospect of starvation though they may combine farming with their proper occupations. They will usually stick to their precarious traditional calling rather than enter a more promising field of labour. The suggestion, that the agricultural population has increased on account of the superior attractions of the agricultural industry and the

1 " On the whole, though no great reliance can be placed on the classification of the population by occupation in the census returns, there is no doubt that the number of agriculturists has increased more in proportion than either the total population or the total number of labourers. The increase in the number of agriculturists may be taken as indicating that the profits of agriculture were such as to attract workers from other occupations to agriculture."—K. L. Datta's Report on High Prices.

prospect of higher profit, is, therefore, unwarranted. There are indeed a few well-to-do people, professional men, pensioners and others who invest their savings in land on account of the peculiar security it affords. But agriculture is rarely remunerative in their hands and their numbers as well as those of artisans and others who purchase lands with the object of carrying on farming as a business, must be exremely small.

22. Pressure on the Land:—The last census report, in the chapter on occupations, throws much useful light on this subject. We there read:—"On the one hand, the rise in the price of food grains has made agriculture more profitable, while, on the other, the profits of the various artisan classes have been diminished, owing to the growing competition of machine-made goods, both locally manufactured and imported, with the result that these classes show a growing tendency to abandon their traditional occupations." And further:—"The local cobler on the other hand, having to pay more for his raw material and feeling the increasing competition of machine-made goods, has been tempted to abandon his hereditary craft for some other means of livelihood, such as agriculture or work in factories of various kinds." Those artisans with whom agriculture was a subsidiary calling, are being compelled to throw up their proper crafts and to take to the overcrowded occupation of farming. The Census Report observes:—"The subsidiary table shows that many village artisans are also partly dependent on agriculture. This supports the statement made elsewhere that there is at present a tendency for these persons to abandon their hereditary occupations in favour of farming."[1]

Though there are certain areas in the country which may be developed, the scope for extensive farming is now comparatively insignificant. The land in most parts of India has been under cultivation for centuries, and persistent and peaceful cultivation under British rule is indubitably subject to the law of diminishing returns. The

1 See the Author's article on this subject in the *Mysore Economic Journal* for February, 1915.

operation of this law can only be arrested by improved methods of farming and the application of more capital to the land. Among the conclusions Mr. Wattal[1] has derived from his elaborate study of census and agricultural statistics, are the following :—That though there are sparsely populated areas they are not so because they are awaiting development but because the character of the soil is inhospitable and there is no further room for the development of cultivation ; that in all the old Provinces the pressure of population on cultivation is fairly intense; that the average per unit of the agriculturist population hardly exceeds an acre and a quarter and shows a tendency to fall ; that development of the means of subsistence in the circumstances of the country can only mean a development of irrigation, but irrigation has no very bright future before it, and that the agriculturist population is increasing at the expense of the industrial and trading populations.

23. Fertility of Soil.—It is a common belief among Indian cultivators that the soil is not as fertile to-day as it was in the past. This notion cannot be disposed of as being a mere prejudice and be put down to the natural human disposition to disparage the present and exalt the irrevocable past.[2] Increasing population and unbroken peace have allowed land no rest, and the fertility exhausted by continued cultivation has not been restored to the soil by the use of rich manures. It is an admitted fact that the soil does not receive the rest it badly requires and is constantly put under crops; and that many of the mate-

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1 The Population Problem in India.

2 " With the increase in the acreage of cultivation, especially of less fertile soils, the average outturn is bound to decrease, but to establish a deterioration it must be shown that the land which was under cultivation in former times now yields less than it did before" and official reports on this point would seem to lead to the conclusion that the theory of deterioration 'has been frequently exaggerated though it is not denied that in several areas the cultivation of land must have become less efficient than before.'—K. L. Datta : Report on High Prices.

rials which ought to be used as manures, are being either exported or utilized for other purposes and wasted. And this is bound to result in soil deterioration

What are called the natural and original powers of the soil vary from one part of the country to another and determine the character of the crops raised there and also the standard of living of the cultivators. The cultivator in the Konkan, for instance, can, with difficulty, eke out a bare subsistence while his brother in Khandesh or Satara gets rich and bumper crops out of his rich soil. The farmer cannot, however, depend upon the natural properties of the soil to provide a perennial and uniform source of income even where nature is bountiful as those powers must be steadily exhausted unless they are replenished from time to time. It is difficult to distinguish with precision between what man owes to nature and what he himself contributes to the productivity of the soil by his own exertions, putting in of manures, rotation of crops and so forth. Where land is abundant, as in a newly settled colony, extensive cultivation is the rule. but in old countries, the demands of a growing population have to be met by resorting to methods of intensive cultivation. Rapid and cheap means of transport have, no doubt, brought the old world into closer touch with the new and the food problem of the former has been, to a large extent, solved. But India cannot afford the means to buy her food from outside and the urgency of intensive cultivation is, in her case, extremely great.

The demand for the agricultural products of this country in the world's markets, is bound to increase steadily and there will be a scramble for the possession of Indian-grown raw materials among foreign nations. Owing to foreign demand, the prices of our raw products are growing higher, and they will constitute an immensely valuable source of wealth for the country. The productive capacity of the soil must, however, be increased if any substantial benefit is to be reaped by the people in the face of increasing population and of rising prices all round. This would require more capital, better methods of farming, improved

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implements and the systematic organization of the agricultural industry.

24. Value of Land.—So far we have confined ourselves only to the natural properties and advantages of the soil and to the varying degrees of value they confer on land. Changes in social conditions, improvements in the means of transportation, creation and expansion of markets also exercise similar influence, and land which is comparatively unimportant to-day will be extremely valuable to morrow. Lands which were on tha margin of production a few years ago, fetch high rents to-day on account of remunerative crops like cotton, groundnuts and sugarcane, being grown in them.

Lands which are brought in contact with new internal or external markets by railways become immediately more remunerative and this phenomenon is particularly noticeable in the case of lands in the vicinity of towns and railway lines. Intensive farming becomes possible in these cases and the saving made in the cost of transportation and the high prices obtained for the products of suburban farms confer higher values upon lands. Social causes do for these lands what natural gifts do for others. One striking phenomenon of the last half a dozen years, is the increase of land values which has taken place all over the country. The increase is mainly due to the high prices of agricultural produce and to growing industrial and commercial activity and is propotional to proximity to business centres, railways and other means of easy communication.

When we consider the changes in the values of urban and suburban lands used and capable of being used as building sites, the phenomenon is more interesting still. The growing population, and the expanding trade and industries of towns, lead to an increasing demand for lands and their values have been steadily going up. Ground rents are consequently rising at a rapid rate in all towns and in centres of industry and trade. The housing problem is, therefore, becoming every day more difficult and demands serious consideration at the hands of municipali-

ties and the State. Lands fetch fabulous prices in Bombay, and even in Poona, plots which could barely yield Rs. 12 per acre fifteen years ago, are being let to-day at Rs. 200 an acre. Exercise of foresight has, therefore, become necessary in the development of urban and suburban areas and town-planning schemes are being undertaken in several places.

25. India's Mineral Wealth.—We have already stated that the possibilities of the development of mineral production in India are considerable.[1] It is only by the application of improved methods and of large quantities of capital that progress is possible in the near future. What can be done in this connection, was brought out in a very interesting manner by the experience of war time when India was thrown upon her own resources and helped the Empire by manufacturing commodities which would ordinarily have been imported.[2]

What progress has been made during the last few years in the growth of mineral production, may be seen from the following comparative figures:—

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1 "The feature that stands out most prominently in a survey of the mineral resources of India is the fact that while striking progress has been made in recent years in opening out deposits from which products are obtained suitable for export or for consumption in the country by what may be called direct processes, very little has hitherto been done to develop those minerals that are associated with the more complicated metallurgical and chemical industries. The explanation is to be found, to a great extent, in the importance of bye-products in modern metallurgical and chemical developments." It is, therefore, maintained that "A country like India must be content to pay the tax of imports, until industries arise demanding a sufficient number of chemical products to complete an economic cycle, and India does, in fact, import at present large quantities of metals and mineral products while possessing in many cases the mineral resources required to supply the demands in question. There is thus great scope for the development of mineral industries for supplying the internal requirements of the country, quite apart from any markets that might be found abroad."—Decennial Moral and Material Progress Report. See also Sir T. Holland's *Sketch of the Mineral Resources of India.*

2 See Indian Munitions Board's Hand Book, 1919.

	Quantities.		Value.	
	1901	1916	1901	1916
			£	£
Coal (tons)	6,635,727	12,254,309	1,323,372	3,878,564
Gold (ounces)	532,303	598,370	1,931,030	2,303,023
Petroleum (thousands of gallons)	50,075	297,189	201,342	1,119,405
Manganese ore (tons)	157,736	645,204	215,934	1,487,026
Salt (tons)	1,102,039	1,488,649	374,133	728,358
Saltpetre (tons)	15,555	25,056	191,904	607,488
Tungsten ore (tons)	...	3,761	...	466,604
Iron ore (tons)	49,798	411,757	7,932	37,911

With every crop taken out of the soil, we steadily exhaust its productive capacity, and it is by means of manures that the fertility is restored to it. But in the case of the extraction of minerals, such restoratives are not available An increased supply can be obtained only by going deeper into the mines, and though the operation of the law of diminishing returns may be checked by improvements, a time comes when the cost becomes prohibitive and the supply of minerals is exhausted. The prospect of the exhaustion of the English Coal Fields, has led some people to advocate the taking of measure to conserve the supply, though the comforting assurance is given by some that by the time the prophesy is fulfilled a century or two hence, a cheap substitute for coal will already have been found.

That fate of the stock of subterranean wealth raises similar apprehensions in India and the problem is further complicated here by the fact that the people of this country have little share in the wealth extracted. The minerals once taken out, cannot be restored and as the mines are

at present exploited, in the absence of indigenous enterprise, the mineral wealth does not remain in the country; nor does the country get an equivalent for it. It is, therefore, not unnatural that people in India should look askance at the exploitation of the country's mineral resources by outsiders and should be anxious to retain them in their own hands and to prevent them from being handled by non-Indians to their own profit.[1] The growing quantity of the mineral wealth raised in the country is not a proof of its advancing prosperity if that wealth is appropriated by people who do not count India as their home. On the contrary, it is a distinct loss to the country because so much of its potential wealth has been removed abroad without a corresponding return.

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1 "In view of the fact that minerals cannot be replaced or replenished, a special, heavy responsibility lies upon both the people and the Government. The desire to stimulate production cannot justify the complete handing over of mines to persons who have no permanent interest in the land. On the one hand, our people ought to realise that in the interests of the country itself our minerals have to be worked. No serious harm certainly can result from postponing for even a quarter of a century the extraction of precious metals like gold and precious stones like rubies or diamonds. On the other hand, as trustees of the permanent welfare of the Indian people the Government should recognize the serious injury that would be caused to those interests from exploitation by outsiders who have no permanent stake in the country." —Presidential Address by the Hon'ble Mr. Mudholkar at the Madras Industrial Conference, 1908.

CHAPTER IV.

Human Effort.

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26. Value of Labour.—Rivers, lakes, mineral deposits, forests and fertile soil are the spontaneous gifts Nature offers to man, but that kind mother yields her blessings only at labour's call. The water of lakes and rivers must be conveyed to fields thirsting for moisture, the minerals must be extracted from the earth, trees in the forests must be felled and removed and the soil must be ploughed and cultivated. In his migrations man has tried to occupy the fairest parts of the earth and to satisfy his elementary wants, but has not always succeeded in doing this with ease; and he has had to struggle with the obstacles placed in his path by Nature. Many economic stages had also to intervene before he rose to the present state of industrial organization. If we leave aside the wild tribes of Gonds, Bhills and the like that are still found in the jungles and hills of India, not far removed from the primitive condition in which man subsists by hunting and pasture, we find that the bulk of the population has, for centuries, been prosecuting agricultural and other industries with patience and perseverance. The story of the

immigration of the Aryans into India and their penetration into the east and the south, recorded in indigenous literature, is suggestive of the stages through which the people passed and of the economic evolution which took place among them. The clearing of jungles, the settlement of village communities and the constuction of towns represented the early stuggle with nature and the development of civilization, characterised by the growth of agricultural and manufacturing industries.

Nature does not smile on all parts of the country alike. She frowns upon man in serveral places and there she has been forced and coaxed into yielding her gifts. In many tracts of the country, the people have had to struggle very hard to eke out a living and with great difficulty the land has been made capable of supporting human life. The intensity of this struggle with nature has moulded the character of the people in different parts of the country in different ways. While, therefore, some have become most courageous, enterprising and tough, or have learnt to take life easily and to scorn manual labour, others have become patient and docile workers. On the whole, however, the value of labour in the production of the necessaries of life as also of comforts and luxuries, has been universally appreciated and the old arts and industries of India testify to this fact. The Indian farmer and craftsman are well-known for their patience and skill, and though labour in this country came to be confined to distinctive grooves and to be specialized in certain castes, the essential conditions of productivity have been indisputably present in it.

27. The Labour Factor.—The first requisite of production is land and the forces of nature. The second essential of wealth-creation is labour which is defined, as it is usually understood, as muscular energy directed by intelligence. In Economics the word is applied to every effort made by man in contributing directly or indirectly to production and refers alike to the human energy spent by a common workman in the field or factory and to that of the Viceory and the Commander-in-Chief of India. Ordi-

narily, however, labour means the manual and intellectual energy brought to bear upon the work of production by all those who directly participate in wealth-creation. The value of land as a factor of production may be partly the result of the labour bestowed upon it; and implements and machinery required for wealth-production are also the product of human labour. Yet the natural powers of the earth and the atmosphere and the pre-existing wealth which is used by the producer, are both essentials of production which can be distinguished with sufficient clearness, from labour.

To satisfy his wants man has always used his physical and intellectual energies and as in the case of land, so in that of labour, the quantity of wealth produced will be conditioned by the efficiency of the factor of production concerned. If more utilities are created in the same amount of time and with the same amount of energy or the same utility is produced in a less amount of time and with a smaller expenditure of energy, that is a distinct gain to the individual and to the community. The efficiency of workers and their condition, therefore, play an important part in determining the national dividend and the welfare of society. As the essence of wealth-creation lies in the surplus of pleasure over the pain of labour or sacrifice, the smaller the amount of the cost, the higher will be the gain. But smallness of the remuneration paid to labour does not often denote a large surplus because the contribution of that labour to production may not be sufficiently high. Low wages may some times prove more costly than high wages. [1]

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1 "In the Philippines the contractors find it in the end cheaper to hire the Chinamen in preference to the natives, although the former command large wages; in the southern cotton factories the white labourer is found more advantageous than the negro factory hand, who can be hired at a materially lower wage. Furthermore, in the same industry and with the same workman neither an increase of wages nor curtailment of labour time necessarily augments cost. Where a reduction of hours or an increase of wages succeeds in enhancing energy, care and sobriety, the output may be greater than before."—Seligman: Principles of Economics.

In ancient times all labour was regarded in India as honourable because it contributed to the production of wealth which was so necessary. In the course of evolution, however, definite functions came to be identified with certain classes which ultimately developed into numerous castes. Originally, Brahmins, Kshastriyas, Vaishyas and Shudras formed the four-fold social and economic division of the Hindu community and this was the Chaturvarnya of the Bhagavadgita and other works, based in theory upon the qualities and acts of individuals but in practice upon birth. The caste system has been described by Cossa as 'division of labour gone to seed'. It made for specialization in production and a degree of efficiency promoted by the worker learning his trade under the paternal roof in a favourable atmosphere. But it killed individualism and freedom of action and led to rigidity and stagnation. The evil was aggravated by the multiplicity of castes into which the four-fold division degenerated and which rendered economic freedom impossible. Birth rather than fitness and inclination became the basis of the division and the stability and the very existence of society came to be bound up with the maintenance of the inelastic system. The Brahmin was the priest, the Kshatriya was the soldier, the Vaishya was the husbandman, trader and money-lender and the Shudra was the artisan whose duty it was to serve the three higher castes. Law-givers like Manu and statesmen like Chanakya have emphasised the imperative function of the ruler stritly to up-hold this organization. There was a time, however, when Vārtā, consisting of agriculture, cattle-breeding and trade, was regarded as respectable and in fact their importance has been uniformly recognized. Only the function of the Shudra came to be looked upon with contempt not worthy of the higher castes.

28. Cheapness and Efficiency:—Indian labour is said to be cheap but at the same time comparatively very inefficient. The cheapness is both the effect and the cause of India's poverty; and even if the Indian labourer is not getting his due share it cannot be sufficiently large

so long as the total product is small. In point of efficiency, the Indian workman is compared with his western brother to his great disadvantage, and it is stated that an English labourer is three to six times as efficient as the Indian labourer. Apart from climatic and other factors which go to make labour inefficient, the Indian workman suffers from a lack of sufficient nourishing food, of education, training and ambition. When these latter are available, the efficiency of Indian labour will not be lower than that of workers in other countries. Comparisons such as the one stated above, are sure to be unfair to the Indian labourer who is the victim of the conditions that surround him and is not inherently incapable.

Complaints are not unoften heard from employers about inefficiency of labour accompanied by a rise in wages. The causes of recent increased wages have, however, little to do with an improvement in the conditions of work on the field or in the factory. Given proper training, congenial surroundings and healthy conditions of work, the efficiency of Indian labour is bound to be high.[1]

The proverb that 'a bad workman quarrels with his tools', may be fittingly applied to the employers in India who find labour scarce, dear and inefficient. They do not

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1 Sir Thomas Holland, speaking at Madras a few years ago, observed :— "One thing that I am quite satisfied with already is that in India we have means of obtaining all the expeit labour that is necessary. Any one who has visited the Tata Iron and Steel Works will come away thoroughly convinced with the conclusion that with Indian labour you can tackle any industry for which the country is suitable. I have seen labourers at Sakchi who only a few years ago, were in the jungles of the Santals without any educatiou. They are handling now red hot steel bars, turning out rails, wheels, angles of iron as efficiently as you can get it done by any English labourer. You cannot have a better test of the quality of labour and you cannot be prepared for more satisfactory results. When your labour is organized and properly educated and properly fed there is not the slightest doubt that you will get results that will suit all raw materials available in the country. The whole question is largely of the methods we should adopt for getting information regarding our own materials and training people to suit the needs of industria' development."

know how to procure and train labour and how to make it efficient.[1]

The labour of the autonomous worker is regular, systematic and efficient. The farmer tilling his own land, the weaver working at his own loom, the carpenter making things for sale on his own account, will not require supervision as will the hired labourer in the field or the factory. The efficiency of the wage-earner is thus determined by conditions different from those of the autonomous producer.

29. Different classes of labour:—Before the advent of machinery and steam power in this country, Indian labour was known to be thoroughly skilled and efficient. The artistic work of India was famous throughout the world, and the efficiency of Indian farmers, weavers, builders, metal workers, carpenters, leather workers, potters, carpet-makers and carvers was undoubted. Though the fine products of Indian labour are being fast displaced by machine-made goods imported from abroad, we still get them in sufficient quantity and variety to testify to the high level of efficiency reached in India. It is a well-known fact that in the first quarter of the last century, the products of Indian looms competed successfully with the piece goods turned out in English factories till at last they were driven out of the field by the selfish and short-sighted policy of the East India Company.

Owing to the decadence of the old indigenous industries and the inability of the people to start new ones to take their place, agriculture has become the mainstay of

1 "I am of opinion that unless the mentality of the workman is improved by primary education so as to enable him to take an intelligent interest in his work there can be no marked improvement in skill, and, again unless he is well paid, comfortably housed and provided with innocent amusement and recreation, there will be no sufficient inducement for him to give steady attendanee which is one of the requisites for maintaining the acquired skill at a high level."—Speech of Mr. Sakalatwala, Chairman, Bombay Mill Owners' Association, 1917.

the population and the bulk of our workers are connected with that industry.[1]

So far as artistic skill is concerned the Indian worker can still hold his own in competition with his western brothers. And Indian cotton and silk cloth, pottery, carving, metal work, toys and other products of manual labour still excite the admiration of the foreigner. The edge of the inventive faculty of the Indian worker has, of course, steadily worn off and he copies models more often than he strikes into new patterns.

The following tables will show in detail, how the population in India is distributed among the different occupations:—

Occupations of the Indian people.

A	India	314,470,014
	Production of Raw Materials ...	227,030,092
I	Exploitation of the surface of the earth	226,550,483
	Pasture and agriculture	224,695,900
	(a) Ordinary cultivation... ...	216,787,137
	(b) Growing of special products and market gardening	2,012,503
	(c) Forestry...	672,093
	(d) Raising of farm stock ...	5,176,104
	(e) Raising of small animals ...	48,063
	Fishing and hunting	1,854,583
II	Extraction of Minerals	529,609
	Mines...	375,927

1 " In England according to the returns for 1901, of every hundred actual workers, 58 are engaged in industrial pursuits, 14 in domestic service, 13 in trade and only 8 in agriculture ; whereas in India 71 per cent. are engaged in pasture and agriculture and only 29 per cent. in all other occupations combined. The preparation and supply of material substances afford means of livelihood to 19 per cent. of population (actual workers) of whom 12 per cent are employed in industries, 2 in transport and 5 in trade. The extraction of minerals supports only 2 persons per mille ; the civil and military services support 14, the professions and liberal arts 15 and domestic service 18, persons per mille.—Census Report, 1911.

	Quarries of hard rocks	75,424
	Salt etc.	78,258
B	Preparation and supply of Material Substances	58,191,121
III	Industry	35,323,041
	Textiles	8,306,501
	Hides, skins and hard materials from the animal kingdom ...	698,741
	Wood	3,799,892
	Metals	1,861,456
	Ceramics	2,240,210
	Chemical products properly so called and analogous	1,241,587
	Food industries	3,711,675
	Industries of tress and toilet ...	750,609
	Furniture industries	39,268
	Building industries	2,062,493
	Construction of means for transport	66,056.
	Production and transmission of Physical forces (heat, light, electricity, motive power etc.)	14,384
	Industries of luxury and those pertaining to literature and to arts and sciences	2,141,663
	Industries concerned with refuse matter	1,388,515
IV	Transport	5,028,900
	Transport by water	982;766
	Transport by road	2,781,938
	Transport by rail	1,062,493
	Post office, telegraph and telephone services	201,781
V	Trade	17,839,102
	Banks, establishments of credit, change and insurance	1,220,187
	Brokerage, commission and export	240.856
	Trade in textiles	1,277,469
	Trade in skins, leather and furs ...	296,712
	Trade in wood	224.83

	Trade in metals	59,761
	Trade in pottery	101,986
	Trade in chemical products ...	171,927
	Hotels, cafes, restaurants etc. ...	719,052
	Other trades in food-stuffs ...	9,478,868
	Trade in clothing and toilet articles	306,701
	Trade in furniture	173,413
	Trade in building materials ...	84,613
	Trade in means of transport ...	239,396
	Trade in fuel...	524,962
	Trade in articles of luxury and those pertaining to letters and arts and the sciences	522,130
	Trade in refuse matter	3,695
	Trade of other sorts	2,192,534
C	Public Administrations and Liberal Arts	10,912,123
VI	Public force	2,398,586
	Army	665,278
	Navy	4,640
	Police	1,728,668
VII	Public Administration	2,648,005
VIII	Professions and liberal arts ...	5,325,357
	Religion	2,769,489
	Law	303,408
	Medicine	626,900
	Instruction	674,393
	Letters and arts and sciences ...	951,167
IX	Persons living principally on their income	540,175
D	Miscellaneous	17,286,679
X	Domestic service	4,599,080
XI	Insufficiently described occupations	9,236,210
XII	Unproductive	3,451,381
	Inmates of jails, asylums and hospitals	132,600
	Beggars, vagrants, and prostitutes	3,311,771

II

Occupation.	No. per 10,000 of total population.
Landlords and tenants	5,606
Agricultural labourers	1,316
General labourers	287
Stock-owners, milkmen and herdsmen	164
Cotton workers	207
Blacksmiths	44
Brass, copper and bell-metal workers	9
Carpenters and wood-cutters	99
Fishermen, boatmen and pialki bearers	133
Oil-pressers	37
Barbers	68
Washermen	68
Toddy drawers	20
Grain huskers and parchers	68
Leather workers	90
Basket makers, scavengers and drummers	107
Priests	64
Potters	63
Mendicants	128
Cartmen and pack animal drivers	47
Village quacks and midwives	6
Goldsmiths	57
Grocers and confectioners	119
Grain dealers and money-lenders	109
Village watchmen and other officials	64
Vegetable and fruit-sellers	51
Makers and sellers of bangles	18
	9,029

III

	Percentage.
1. Cultivators	50
2. Agricultural labourers	13
3. Rent receivers	6·8
4. Agents and raising of farm stock	2

5.	Fishing	·6
6.	Industries	11·2
7.	Transport	1·7
8.	Trade	5·2
9.	Public Administration and liberal arts	2·9
10.	Domestic service	1·5
11.	Others	4·1
	Total ...	100

30. Agricultural Labour :—India is a country of villages. Only 9.5 per cent. of the population of India are found in towns (having not less shan 5, 000 inhabitants as a general rule) compared with 78·1 per cent. in England and Wales and 45·6 per cent. in Germany. In such a preponderatingly agricultural country as India, out of every 10,000 of the village population, a little more than a half are land-lords and tenants and about one-eighth are agricultural labourers, general labourers being about 3 per cent. of the whole. It has been calculated that, on the average, in the whole of India, every hundred cultivators employ 25 labourers, but the number varies in the main provinces from 2 in Assam, 10 in Punjab, 12 in Bengal, 16 in the United provinces to 27 in Burma, 33 in Bihar and Orissa, 40 in Madras, 41 in Bombay, and 59 in the Central Provinces and Berar.

As regards Indian agricultural labour, there is no question about its being most patient, assiduous and skilful. The agricultural labourer often owns a piece of land himself and works both on it and on the farm of a local landovner. This land-lord-cum-labourer does besides other kinds of work; plies his cart for hire and markets field produce. The women of the house also work in the fields. Women labourers are employed for weeding, harvesting and so on. They make cow-dung cakes which are sold in the neighbouring town, and milk is also similarly taken for sale every day. Agricultural labour is thus not specialised as in western countries, and spinning and other simple trades are also carried on under the roof of the cottage. Complaints have recently been loudly made by landlords

that farm-labourers have grown more lazy and indifferent and that while there is an increase in the rate of wages, efficiency is deteriorating.

The impression has long prevailed that the Indian cultivator is a very indifferent worker, dull-headed, unenterprising and inefficient; but it seems to be derived from the fact of his being without capital, without good implements and manures and without those other characteristics which give a farmer the appearance of a progressive and capable worker. Latterly, however, the Indian cultivator has come to be better appreciated[1] and it is stated that in the art of agriculture he has little to learn, except the new methods which scientific progress has taught. In 1889 Dr' Voelcker,[2] consulting Chemist to the Royal Agricultural Society of England, was deputed to make inquiries and suggest improvements in respect of Indian agriculture And he stated it as his deliberate opinion that 'the

1 " It is assumed that the Indian cultivator knows nothing about his own business: that any thing that is good must come from the West. And so the kindly, but in many cases, misdirected efforts of early workers took the line of introducing into India crops or implements of Western origin regardless altogether, in the case of crops, of the effect of climatic change or in the case of implements, of considerations of cost. This feeling died hard. It was long before the stage was passed of considering that the West must teach the East, that the East had nothing to teach the West. Real progress came only when it was realized that in India we have to deal with an agricultural practisce which has been built up on the traditional custom of years and in which reside though unexpressed and unexplained deep scientific principles the reasons for which can only gradually be elucidated"—" Agriculture in India" by James Mackenna.

2 " At his best the Indian Ryot or cultivator is quite as good as and in some respects the superior of the average British farmer, whils at his worst, it can only be said that this state is brought about largely by an absence of facilities for improvement which is probably unequalled in any other country, and that the Ryot will struggle on patiently and un-complainingly in the face of difficultiss in a way that no one else would. Certain it is that I, at least, have never seen a more perfect picture of careful cultivation, combined with hard labour, perseverance and fertility of resource, than I have seen in many of the halting places in my tour "

ideas generally entertained in England, and often given expression to even in India, that Indian agriculture is, as a whole, primitive and backward, and that little has been done to try and remedy it are altogether erroneous.'

The position was pithily summed up by His Most Gracious Majesty the King-Emperor while in India in the statement that "the cultivator has always been patient upon laborious and skilful, though his methods have been based tradition. Latterly the resources of science have been brought to bear upon agriculture and have been demonstrated in a very short time."

31. Village Economy:—The Indian village is generally self-contained unless where it has been brought into close contact whith the outside world by the railway. The importation of machine-made goods and their diffusion throughout the country, have, however, disorganized the self-sufficing organization of villages. On a preceding page we have shown the traditional occupations of the inhabitants of villages and that represents the normal rural situation. But the village organization is fast undergoing a change. The traditional skill of several classes of artisans finds a steadily diminishing demand owing to the introduction into villages of manufactured articles, Indian or foreign. They are, therefore, thrown back upon the land which some of them own and thus press upon the soil except where new tastes and wants provide them employment in their old industry adjusted to changing circumstances.

The caste of each worker determines for him the occupation the will follow. Though some people will disdain to touch the plough, ' it may be noted that agriculture, including field labour is the occupation which has drawn away most of those who have deserted their traditional callings.' There are, again, various occupations, which are not specially ear-marked, such as service under Government or private employers, the learned professions &c., which persons of all castes seek to follow; and with the spread of education, the competiton for employment

in these directions will become increasingly severe. Struggle for existence, contact with western civilization and spread of education are great solvents; and they are loosening the rigidity of caste organization. Thus the higher classes among the Hindus, e. g. the Brahmins, have taken to trade, and such occupations as tailoring, watch-repairing, engine-driving, carpentry, shopkeeping, &c., are no longer barred to them. Owing to a lack of demand for their goods, the hereditary skill of several artisans has deteriorated and it is only to satisfy the simple wants of village people or the artistic tastes of the wealthy few that rural and urban craftsmen ply their industries.

The farm worker goes daily to his field in the agricultural season and does some other job when land provides him no employment. The cow-herd and the shepherd tend their herds and flocks in the village commons and on adjacent hills. The weaver plies his handloom under trees in front of his hut and the potter turns his wheel in the open space before his hovel. The blacksmith works at his anvil and forge to make and repair the carts, implements and tools of the village. The carpenter, the leather-worker and the shoemaker are likewise in request and supply the simple wants of the rural folk. Female workers are employed in the fields for weeding, picking and reaping. But ginning and spinning are no longer the regular domestic occupations of women as they were before the advent of machinery. Most of the craftsmen in the village are autonomous workers, but the other labour is hired, either by the day or by the year. In the old village organization, artisans and craftsmen were expected to supply their labour to farmers in return for remuneration given to them in kind according to a fixed schedule. This system prevails in villages even at the present day.[1]

In several parts of the country there are agricultural labourers who can be hardly distinguished from serfs. They

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1 See T. N. Atre's "Gawa-gada" in Marathi.

are in the iron grip of the landlord who has advanced to them sums of money required by them to defray the expenses of marriage and other ceremonies. And as repayment of the debt is practically impossible, the labourers become attached as serfs to the estate of the master. They receive from the landlord-cum-money-lender a stated amount of food, clothing and cash per year and become hereditary serfs. The 'Padials'[1] of the Madras Presidency are serfs of this type, and under other names they are not an uncommon feature of village life elsewhere.

32. Factory Labour:—Even in Western countries where the factory regime is in full swing, we witness in industries what is called a 'regressive evolution,' and manual labour, assisted perhaps with improved tools, is often preferred to work done with the aid of machinery In India, the machine is the exception and manual labour the rule, in spite of the fact that in large centres like Bombay, Calcutta, Cawnpur and Ahmedabad numerous factories have been started. · Machinery driven by power is being installed in many petty towns and is fast displacing manual labour engaged in small industries. The operatives employed in factories have, of course, to do work of a different character from that done by those engaged in agriculture. the domestic industries, and the handicrafts. Some of it is, indeed, highly skilled and its efficiency is considerable.

It is not easy to calculate the number of people employed in the two different types of industries. The last census report, however, gives specially collected statistics of persons engaged in factories which employed twenty or more persons on the date of the census. This number must now have largely increased and more accurate and more instructive statistics are promised at the coming census. There were in the whole of India, 7,113 such

1 Some South Indian Villages :—" A ' padial' is a sort of serf who has fallen into hereditary dependence on a landowner by debt. In almost every case the original debt was a sum of money borrowed by a landless man to solemnize his marriage or more frequently, that of a son or daughter, the borrower undertaking to work for the lender until the debt should be repaid, in return for a certain limited supply of food."

factories employing 2 1 million persons, or 7 per mille of the population. Of these 21 lakhs workmen, 5,54,778 were returned as skilled and 14,80,815 as unskilled. There were 38 females per 100 males employed in the factories. The plantations alone were responsible for 7 lakhs of workers and more than 5½ lakhs were employed in textile industries, mines providing employment for about 2¼ lakhs. Railway workshops, 118 in number, gave employment to 98,723 persons, and of these 65,460 were skilled workers. Of the 7,113 factories mentioned above, 4,529 used mechanical power and were resposible for the employment of 18 lakhs of workmen out of a total of 21 lakhs. It may have been observed that the proportion of skilled to unskilled labour in factories was as 1 to 3.

What we have said above of agricultural labour applies to a certain extent, to labour in factories also. Several of the mill-hands in Bombay, for example, have their bits of land, perhaps the common property of a joint family, and they return to their rural homes at the beginning of the raina season. They lend a helping hand to the folk at home in agricultural operations and on the close of the season return to their urban occupations. These migrations disturb the work of the factory and the employer is annoyed by the absence of so many hands at regular intervals. The operatives are not inclined to settle permanently in or near the towns as their attachment to the native village is too strong for this and the conditions of urban life are not sufficiently attractive. Nor can they stick to their rural homes as they must go out to earn enough to supplement the scanty and precarious income yielded by the village land. This amphibious character of the Indian factory worker is an interesting feature of our industrial organization and possesses great economic significance.

Labour employed in the Jute mills of Bengal was formerly almost wholly local. But recently as much as 80 to 90 per cent. of it is recruited in the neighbouring provinces. The same remark applies to tea plantations

in Assam and to the various factories in and around Calcutta. The Bombay mill operatives are stated to be more skilful and intelligent than the Bihari immigrants into Calcutta and consist mostly of Marathas from the Deccan and Konkan, to a certain extent of Konkani Mahomedans and Julhais (Mahomedan weavers) and of a few men from Central India. The workers in the coal mines in Bengal are partly drawn from outside and partly locally. The labour is insufficient and intermittent and most of the labourers are cultivators or agricultural workers who return to their villages for agricultural operations. The labour employed in the cotton gins and presses in Northern Deccan, Berar, parts of the Central Provinces, and in Central India, is seasonal and unskilled. The supply of fitters and engineers is fairly plentiful there and the same labour conditions prevail in the cotton areas of the United Provinces, the Punjab and Madras.

33. Traditional Training.—In the case of the old industrial arts, as we have pointed out before, there is yet much surviving skill and efficiency, but these have little scope for expansion, and with a steady diminution in the demand for products of indigenous manufacture, they are slowly but surely disappearing. The need of new industries and of a modification of the forms of the old ones tis being keenly felt, and it has become necessary to adjust echnical and industrial training to the changed circumstances. The traditional method of industrial training is very largely similar to the apprenticeship of the Middle Ages in Europe. A craft being hereditary in the family is picked up by the boy from his father or an elderly relative or a master craftsman to whom he is apprenticed A learner in India, be it of music, of handicrafts or of trade must begin by doing very humble services in the house of the master and must proceed by slow stages, watching and being directed as he goes on. The pupil rarely pays anything for being taught and may earn something from his master as the latter receives assistance in his work. When the training is over, the apprentice

sets up independent business or becomes a partner or a permanent worker in the master's shop.

This system answered well in the past, but it no longer suits the changed and changing economic conditions in India. The workmen are not thereby enabled to keep abreast of the times, the quality of their work has deteriorated and the products of their industry are fast being supplanted by imported articles. Except in a few cases, they can neither adhere to the traditional system nor avail themselves of the advance the world is making in improved mechanical processes. The bulk of Indian workmen are ignorant. They cannot understand the changes that are taking place all around them, and cannot be expected to adjust their activity and skill to the altered environment. They are also extremely poor and their lack of means is another serious obstacle in their way. The handloom weaver is a typical example of this deplorable condition and it is a serious problem how to rehabilitate him.[1]

34. Present Requirements.—It is inevitable that in the steady process of economic evolution now going on in this country, the hand workers should have to abandon their old callings and that improved and new industries should take the place of the latter. Their displacement from hereditary occupations to which they were born and bred, naturally excites sympathy but they cannot be simply preserved as the relics of a bygone age

1 " The weavers are exceedingly poor and in the main rely upon middlemen for the small amount of capital actually employed in their trade—they are ignorant and narrow-minded and averse to enquiries regarding the detail of their trade. Each man works for himself and there is little or no cooperation among them. There is no chance that any weaver may arise with an intimate knowledge of the technique of the trade and with a mind sufficiently wide to grasp the general trend of the economic forces which are gradually driving his fellow castemen to misery and despair. The only hope lies in the conduct of experimental weaving by the State with the object of working out by degrees a better system of production."—Chatterton : " Agricultural and Industrial Problems in India."

in an economic museum. The young generation of the hand workers must be educated and trained in new methods and processes and must be taught to use improved tools and machinery. Only in this way can these classes of workers in India be enabled to keep abreast of the times and be efficient agents in the production of wealth. Even though they may cling to their particular callings allowed by caste prejudices, they may be given scope for improvement in those very callings and thus enabled to make a living and stand outside competition. Or they may be trained to work in factories where their inherited aptitude may be suitably developed into up-to-date efficiency. Workmen of this type do find employment in mills and factories and are able to earn high wages. They also can steadily rise to higher positions and become foremen and even managers and employers. This will certainly mean the transformation of autonomous workers into wage-earners. But failing the rehabilitation of craftsmen in a comfortable position, that alternative is preferable to stagnation and starvation.

In textile mills, mines, factories and railway work shops, a training suited to the different trades, is essential to make efficient workers, and in India as in other countries, honest, active and intelligent men are promoted to responsible and remunerative places. But in this country, the higher and the intelligent classes usually take to the learned professions and the too literary character of our education has created a large amount of unemployment among them. A number of technical schools do exist and some of their products secure employment in the factories. An adjustment, however, between industries and technical institutes has not yet taken place, and there are numerous young men who have received technical education but fail to secure suitable employment. While there is a popular demand for the establishment of technical institutes, large and small, in all parts of the country, there is a complaint on the other side that the supply of trained men is already larger, and any addition to it must increase the army of the unemployed.

What is urgently required is the reorganization and expansion of our whole educational system. The diffusion of primary education, the starting of technical and industrial schools and the provision of mechanical training for factory operatives, must be undertaken on a liberal and comprehensive scale and nothing must be left to custom or to chance. The problem of national education has been or is being solved in Germany, Japan, England, Austria and America, but in India we have long drifted and even now when the lessons of the war in this connection are being taken to heart everywhere else, we are not moving sufficiently fast.[1] Each individual citizen must go through a suitable system of education, his faculties must be developed and the best that is in him must be drawn out to his own and the public advantage.[2] Technical scholarships are given by Government to qualified young men to enable them to acquire industrial training in western countries; and it is expected to do more in this as well as other directions.

35. Technically Trained Men.—The view is held by many that "if it is admitted that in every other country technical education has followed the organization of industries, or grown up alongside with them, and may be said to be the necessary complement to industrial efficiency, it is obvious that in a country where few industries are established, the wholesale education of Indians could only result in an excess of young men trained up for posts which do not exist, and for whom no suitable occupation can be found." Employers of trained labour likewise complain that the men produced by the

1 " See Viscount Haldane's paper on National Education in 'After. War Problems' and an account of the German system of education in Earl Dean Howard's 'Recent Industrial Progress of Germany.'

2 " A factor which has tended in the past to delay the progress of Indian industrial development has been the ignorance and conservatism of the uneducated workmen. The evidence tendered by employers was almost universally in favour of labour, both skilled and unskilled, that had at least received primary education. This is given in countries with which India will have to compete and is a *sine qua non* in this country also."—Report of the Indian Industrial Commission.

technical institutes are not suited to the kind of work they are expected to do in factories. The men, it is said, want high salaries, even from the very start, and are averse to working with the hand. They are, therefore, condemned by the employers as useless people. For the higher kind of work they are not wanted and for the lower grades of labour for which there is a demand, they are not suited. This is the burden of the complaints which employers had to make to Lieut. Colonel Atkinson and Mr. Dawson who were deputed by Government to make an inquiry into the subject. The complaint extends to the sons of artisans who receive an education beyond the primary stage and it is stated that the spread of education among the artisan classes tends to bring manual labour into contempt, leading the young men to forsake their fathers' callings in favour of clerical work.

Opposed to this view is the other according to which employers of labour in India have a strong and by no means an unselfish prejudice against technically trained men and that they want to employ low-paid workers. "Even in existing conditions the field for employment is large if the exclusiveness of some of the employers is overcome. The railways and navigation companies, for instance, provide an increasing number of berths to men trained in the technics. We have now about, 33,000 miles of railway in India and the mileage is expanding. This must have a large room for employment if only as foremen, drivers, fitters, guards, carriage builders and engine makers. There are very few Indians now employed. They have not had their chance in this line. The navigation companies too do not employ them except in the lowest rungs of the service. Ship-building is not undertaken in India and yet the time will come when an attempt will have to be made...The growing mills, the business houses, the banks, the engineering firms and a host of other special institutions that could be named could employ for years to come almost all the material turned out by the technical institutions, either now existing or which may be started

in the course of the next few years."[1] The tendency of artisans' sons to treat manual labour with contempt and to prefer clerical work, wherever it is seen, is rightly attributed to the wrong system of education which has been made available to them.[2]

36. Prospects.—On railways, and in mills, factories and workshops, there is undoubtedly a growing demand for trained men and in several of them the relatives and the children of the workers are trained. The inhabitants of certain provinces and the members of particular castes are declared to be peculiarly fitted by nature for technical education. Members of the artisan classes are preferred by employers, one of whom stated that "the men required in the textile industry were men recruited from the lower classes and educated up to about the middle standard—men who were accustomed to hard work by tradition and had not been spoilt by too high education."[1] Employers seem to be willing to take up apprentices if young men of the right type are willing to learn under the conditions offered, and suitable provision may also be made for technical education in special schools or institutions attached to factories.

The spread of elementary education is the first need of the country, and that system must be linked up with general technical and special industrial education. With intelligent and trained labour several of the existing industries may be improved and rendered profitable while the efficiency of new ones may be materially increased. The beneficent effect of elementary education upon the efficiency of labour has been admitted on all hands.[2] For the higher grades of workers a little more education and actual experience in factories, combined with technical training, is needed. And as to the work of supervisors, managers and organizers, technological institutes of a higher type like the Victoria Jubilee Technical Institute

1 Report on the Inquiry concerning the employment of technically trained Indians.

2 Indian Industrial Commission's Report, Page 109.

in Bombay and the one proposed to be started in the United Provinces, are obviously necessary. Men so trained must also get scope for the use of their education and ample opportunities for rising to higher positions in industries. At the present stage of economic transition, the adjustment of training to the varied industrial requirements, is certainly a difficult matter; and a determined effort must be made by Government to provide it in suitable ways.

In agriculture too, special training will go a long way to improve the efficiency of the farmer,[1] and provision is being made for this by the starting of vernacular agricultural schools for the sons of cultivators, notably in the Bombay Presidency. The common agriculturist does possess great skill but his industry cannot be made more remunerative and productive unless he knows how to apply improved methods of farming.

37. Shortage of Labour.—We shall have more to say concerning the condition of labour, urban and rural, in a later part of this book. Here we shall notice one or two points only with respect to the supply of Indian Labour. The general complaint about the shortage of labour on the part of employers, has been already noticed Like the Black Death in England, the Plague has taken a heavy toll of the lives of the working population during the past twenty years. A single visitation of influenza carried away, in 1918-19, 60 lakhs of persons, chiefly from

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1 "Skill, that is to say, practice and a certain amount of knowledge is required by the man who drives a plough or a cart or who sows or reaps or irrigates or weeds; and this skill is acquired in a very high degree by the cultivator's children as they help their father and learn from him. But the art of agriculture has to move with the times, just as handicrafts must move: new crops have to be grown and old crops given up: new methods, new tools, and new implements are required in order to secure the greatest possible production from the land; and the cultivator cannot teach his sons about those things, which he does not know himself. And so arises the need for some kind of education which shall teach the cultivators' children the new knowledge they require without interfering with the training they receive from their fathers."—W. H. Moreland: An Introduction to Economics.

among the working classes. These epidemics, along with malaria and other diseases which have made permanent homes in the country, have produced big breaches in the ranks of labourers. But the fact that workers are not readily available or available at the old rates of wages, ought not to be taken as an indication of any real shortage of labour.

And here we are confronted with the paradox that while thousands of coolies have emigrated to distant colonies as indentured or free labourers, employers of Indian mills and factories have been complaining of a scarcity of labour. But we know under what conditions the emigrants go thousands of miles beyond the seas, and, after all, their number is a drop in the ocean when it is compared with the total labour supply in India. In the first place, the rising prices of food grains and other necessaries, must make labour dearer, and employers have no right to expect workmen to be satisfied with the old rates. Secondly, though it is not easy to induce the ignorant Indian labourer to move out of his village and seek employment at distant places, the prejudice against migration is seen to disappear. More than ten lakhs of Indian labourers are to be found working on the plantations of the various British Colonies and thousands migrate from one province of India to another.[1]

38. Potential Supply.—Though the attractions of such industrial centres as Bombay, Ahmedabad, Cawnpur and Calcutta, draw labourers from far and near, there is a

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1 "The large streams of migration from Behar and Orissa, the United Provinces, Rajputana and Madras are specially noteworthy. These provinces supply the requisite labour to the fertile plains of Bengal, and the still undeveloped Assam and Burma. Not only are the fields of Bengal capable of supporting a larger population than is now to be found in them but the insanitary condition of the province aids further immigration by decimating or disabling the existing labourers. Of the 14,00,000 emigrants in Bengal, only a fifth are the natives of the contiguous province of Behar and Orissa or Assam, showing thereby how attractive its factories and lands have been to the residents of even the distant United Provinces and Rajputana."—M. S. Kamath: "The Census of India."

very large potential supply to be found among the classes known as 'untouchables' and the tribes that lead a vagrant life and subsist on mendicancy and crime. For centuries the former have been relegated to a condition of serfdom, and on account of the strong religious and social prejudices against them—the result of historical causes—they could not be counted upon to man the labour force which is required to carry on new industries started all over the country. Standing on the lowest rung of the ladder of Hindu society, the untouchable classes have no religious scruples which hamper the migration of the higher castes to distant provinces and abroad and which forbid them to do work regarded as degrading. Large numbers of these, therefore, go as coolies to Ceylon, Burma and Federated Malay States. Among these classes, therefore, we have an unlimited potential source of labour power and as their number is estimated at no less than six crores, Indian industries need not suffer from a shortage of workmen. Caste prejudices against the employment of these people who have little scope for honest work and opportunity to improve themselves, will die out and ought soon to die out, and economic forces will combine with humanitarian and patriotic considerations to prevent so much human power from going to waste.[1]

The members of the depressed classes who are shunned by high class people, are found to become respectable domestic servants and operatives and to do work that requires intelligence, perseverance and trustworthiness. To-day, they are in an extremely wretched condition, their habits are filthy and their surroundings are forbidding. Several of them, however, have been the traditional servants of the village community and are characterised by

1 The movement of political reform which has gathered great force since the outbreak of the war, has compelled public attention to the rights and to the question of the uplift of the depressed classes. As their disabilities are steadily removed, they will make an increasing contribution to the labour power of the country. Their sense of self-respect has been roused and there is to-day an upheaval among the depressed classes all over the country, their representatives being nominated to municipal boards and legislative councils.

honesty, sturdiness and physical endurance. Some of them have lands given to them in return for village service and are thus cultivators. Others earn a living by making ropes, baskets and so forth. Tanning and curing hides gives employment to some, while others work as scavengers. The work of uplifting them which is being carried on by philanthropic people and social reformers, has an economic significance. Both justice and economic needs require that the depressed classes should be raised from the slough of degradation and demoralization into which they have been allowed to fall. The old system of specialization under which the caste of a person determined his profession, is slowly giving way before the advent of the new regime, and the old barriers of caste and prejudice being removed, all people must get opportunities to better their social and economic position by doing work for which they are fitted.

39. Criminal Tribes.—Owing to the administrative and economic changes which are taking place in the village organization and public life, the untouchable classes are fast losing their traditional employment. If they are, therefore, given education, they can be made to take a share in the new industrial organization by working in mills, factories and workshops. Non-Hindus, particulary Europeans freely employ members of the untouchable classes, as domestic servants and when the servant problem is becoming more and more difficult every day, relief may be found in this direction. A Mahar or a Mang, branded with untouchability, attains respectability when he enters the Christian fold into which he is readily welcomed. Besides these depressed classes. again, there are the criminal tribes scattered all over India. They lead a vagrant life and are a meance to the peaceful population of our villages. The work of reclaiming these people has been recently undertaken by Government, and missionary effort is also in the field. These men can be weaned from their immoral and criminal habits and be made to live useful lives. They can be taught certain trades and thus may become useful members of society instead of parasites and habitual criminals.

Only one illustration of how the criminal tribes may be reclaimed and be trained to contribute to the production of wealth by taking up decent trades, will here suffice. An interesting experiment to control and reform the criminal tribes of the Bijapur district was started a few years ago under the auspices of Government by Mr. O. H. B. Starte, I. C. S. With the co-operation of the officials and the gentry of the district, and particularly of certain employers of labour, he has been able to turn Chhaparbands, Haranshikaris and Ghatichors into mill-hands, masons and agriculturists. In the Criminal Tribes Settlement at Sholapur, there has recently been a population of about 3,500, of whom nearly 1,500, including men, women and children, were employed in the local mills. These tribes consist of different castes with a history and characteristics of their own. The Chhaparbands were once given to manufacturing false coins, but are now earning an honest livelihood. Then there are the Bhamptas who were given to the commission of thefts on the railways. The Gujarati Bhats who were also thieves and the Haranshikaries who committed robberies, are now, along with others, working in mills as ordinary labourers. There are other wandering tribes who are a nuisance and a menace to peaceful society and they must be reclaimed.[1]

40. Wastage and Economy of Labour Power :- There is a large amount of labour power, actual and potential, which may be thus utilized to the immense advantage of the country. Some of the classes who at present contribute little to wealth-production, have been referred to above. Thers are several besides them who live on the profession of begging. With them it is a hereditary calling, and they think they can not do and ought not to do any thing else. Indians are an extremely charitable and hospitable people, and very often it is not a discriminating charity they practice. This piety is exploited by many a mendicant who does not regard begging as dis-respectable. The mendicancy takes various forms, more or less associated with the religious ideas of the people. Most of the mendi-

1 See Atre's Gawagada in Marathi.

cants do not know the dignity of labour and pretend to feel offended if they are asked to earn their bread by the sweat of their brows.

The so-called Sadhus who go about from one shrine to another and live upon the industrious, are a great problem. The idle lives led by monks and priests, have provoked a revulsion of public feeling in all countries, and the abuses of poor relief in England are well-known. The drones who live on the piety, credulity and charity of villages and towns, will steadily find their position getting more intolerable in the struggle for existence which is becoming keener every-day, but to-day, they represent so much wastage of labour power. How to improve the Sadhus and make them useful members of society, is a question which is being tackled by Hindu Sabhas and conferences. It is a very large and difficult problem and must be faced by the community.

Caste restrictions which prevent persons from taking to a trade to which they are not born, also involve waste and loss of efficiency. Supply of labour does not readily respond to demand, and the productive power of the country suffers. Occupations which, in other countries, are indifferently pursued by all persons, are in India, confined to particular castes, and are looked down upon as inferior and debasing by others. The exclusiveness and pride of caste are so strong that workers belonging to a social group or sub-section, feel degraded if they are called upon to take to a trade followed by others. Mahomedans and other non-Hindus are not, of course, hampered by such restrictions, and they are seen easily adapting themselves to the situation. But as we have observed before, caste distinctions are gradually becoming less rigid in the economic sphere, where disturbing and dynamic forces are leading to individual freedom and emancipation from caste control though socially the restrictions are still effective.

The substitution of machinery for manual work, is another source from which, through economy of labour power, accession to the ranks of operatives may be looked for in an increasing proportion. Machinery and improved

tools will set free for employment much of the labour now engaged in heavy and exacting work. A machine driven by steam, gas or electricity, does as much work as a number of human workers and this constitutes a distinct and a measurable gain in productivity. The oil and floor mills, the pumps for drawing up water, the sewing machine, the sawing and husking mills, the power loom and a host of other mechancal appliances are fast displacing manual labour and are thus adding to the supply of labour power. The use of machinery has its disadvantages; but the compensating gain in a country which wants a larger production of wealth and the promotion of material prosperity, is an important consideration which must be given due weight.

CHAPTER V.

Capital.

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41. What is Capital?:—Besides the intellectual and manual labour of man and the forces of nature, there is a third factor which is essential to the production of wealth, and that is capital Man may produce commodities by working with his hands on material provided by nature, but even the most primitive forms of production pre-suppose the use of weapons, instruments and tools. Though capital itself is produced by human labour, it is a distinct factor of production and occupies a very important place in modern organization of industry. Mere labour and powers of nature are not enough; there must be some pre-existing wealth available to enable the worker to maintain himself while new forms of wealth are being produced, and to assist in the processes of production.

The creation of wealth is the creation of utilities, and it involves activity intended to secure a surplus by augmenting utilities and diminishing costs. The cultivator, the weaver, the potter, the blacksmith, the carpenter,

the shoemaker, have all of them to use capital without which their trades would be impossible, and the higher the organization of industry, the larger is the quantity of capital required.[1] The handloom of the weaver, the wheel of the potter and the plough of the cultivator, constitute their capital, besides the raw-material which they use in their respective industries.

Capital is the result of saving and presupposes abstinence from immediate consumption. The farmer sets aside a part of the grain he produces, for food, seed, for buying manure and for paying wages to labourers, and these constitute his capital. If he is poor or extravagant, he may have to borrow these from the village money-lender and have to repay the amount and, in addition, to pay interest upon it. But the grain which the money-lender has lent for sowing or for maintaining the cultivator while at work in his field, has been saved by the former out of his earnings. He might have consumed every thing that he earned and would thus have laid by nothing. In that case the money-lender would have had no capital to lend.

The weaver has a handloom in his house. But the yarn he requires is supplied to him by the money-lender, and for his daily food also he depends upon loans. Thus he carries on his trade on borrowed capital. But it is possible for a weaver or a blacksmith to produce more than he consumes himself and spends upon the purchase of raw-material and tools, and this surplus may be utilised in buying better tools and more raw materials. This employment of capital increases efficiency and output and leaves a larger margin of profit to the craftsman. The supply of a sufficient quantity of capital is, therefore, a necessary condition of the productivity of industry. And the economic condition of a community is satisfac-

1 "The productivity of capital consists in the aid which it renders in securing the same results with less effort. It is an adjunct to human labour and to that extent lessens labour by interposing something between labour and its result."—Seligman.

tory or otherwise according as the supply of capital is abundant or scanty and cheap or dear.

Modern economic progress has been rendered possible by the use of machinery and the application of scientific methods to production. The use of power and machinery means the employment of large quantities of pre-existing wealth, that is, capital. Industrial advancement in India is conditioned by the extent to which in agriculture as well as in manufactures more efficient means are employed to produce wealth. Agriculture is the basis of several industries and apart from the fact that improvement in its operations will yield larger quantities of food and raw materials, it will have a stimulating effect all round. It is notorious that the yield per acre of Indian crops is one fourth to one half of what it is in advanced countries. Thus while hardly 100 pounds of ginned cotton are obtained per acre in this country, an acre gives 200 pounds in the U. S. A. and 450 pounds in Egypt. Holdings in India are too small for economic production and the rayats are poor. There is still ample scope for the use of machinery for lifting water, improving land, preparing crops for the market and for producing manures and cattle food.

42. The Rayat's Means:—A big landlord or farmer in India has considerable capital which consists of farm-houses and wells, ploughs and cattle and of seed and manure. He can use his capital in getting as large a produce as possible out of the soil by procuring a steady and sufficient supply of water, by improving the land and by constructing embankments to retain moisture and silt. But the capital which is available to the ordinary cultivator is scanty and of the simplest kind. He has a wooden plough and other rude implements, a pair of bullocks and a cart which he may, in the off season, ply for hire. The common cultivator, far from being a man of means, is indebted to the village sowkar and the indebtedness of the Indian rayat has become proverbial, and in certain parts of the country, almost notorious. He has to borrow at exhorbitant rates of interest and is crushed under the weight of his debt.

His land and property are generally mortgaged and often pass into the hands of the sowkar.

The question of the indebtedness of the rayat has engaged the attention of Government for the past sixty years, and measures have been taken from time to time to supply the rayat with the capital he wants for land improvements till the co-operative credit movement has at last been regarded as peculiarly efficacious in this connection.[1] The Deccan Riots Commission[2] observed with reference to the indebtedness of the landholding classes that the estate of an ordinary kunbi rayat, exclusive of his land and its product, had been estimated by competent authority to be of little more than Rs. 200 in selling value and that it would be somewhat as follows :—Live stock = Rs. 125, Implements and utensils = Rs. 20, House = Rs. 50, Miscellaneous = Rs 33, Total = Rs. 215.

We are not here concerned with the causes of the rayat's indebtedness. The fact of it is patent, and it is bound to affect prejudicially the productivity of his land and labour. The indebtedness is often a legacy left by the forefathers of the cultivator and he is heavily handicapped. There is practically little surplus left after the expenses of the maintenance of his family are deducted from the gross produce, and it is with the greatest difficulty that he can meet the interest charge and the Government assessment. The Famine Commission of 1880 found from evidence collected from all parts of India that about one-third of the land-owning class were deeply and inextricably in debt, though not beyond the power of recovering themselves. An analysis of the embarrassment of twelve villages revealed to the Deccan Riots

1 This subject will be treated at greater length in a later Chapter.

2 Report, 1875.

Commission the fact that about one third of the occupants of Government land were embarrassed with debt, that their debt averaged about eighteen times their assessments and that nearly two-thirds of the debt was secured by mortgage of land.[1] No appreciable change for the better has taken place in this position during the past generation. High prices of agricultural produce and the spread of the co-operative movement are indeed factors which are making for improvement but their influence on the mass of the agricultural propulation has not yet become noticeable though it is felt in certain individual cases.

43. Agricultural Capital:—Capital is thus the most urgent need of the cultivators who form the bulk of the population and whose industry is the premier industry of the country.[2] The agriculturist is certainly able to secure loans from the village money-lender, but at exorbitant rates of interest; and therefore the capital thus borrowed cannot prove very productive. What is true of the common cultivator is likewise true of the artisan class generally. Money-lenders are shrewd business men, and they secure themselves against the risk of the loss of their money by exacting high rates of interest, by a mortgage of property, by the imposition of high prices and in other ways. Excepting a few wealthy and progressive farmers, cultivators carry on their agricultural operations with the old-fashioned implements and by the tradi-

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1 Very interesting results in this connection have been arrived at by Dr. H. H. Mann in the inquiry he has made into the economics of a Deccan village. See his 'Life and Labour in a Deccan Village' as also 'Some South Indian Villages' in which facts and figures relating to rural economics in the Madras Presidency have been given.

2 "India to-day provides an apt illustration of the truth of the dictum that the destruction of the poor man is his poverty. Agriculture, while the foundation of all other industries in India, is painfully under-capitalised. The problem is how to place within reach of the cultivator the improved seed, the improved implements, the improved methods which are necessary if Indian agriculture is to become what it ought to be."—India in the Years 1917–18.

tional methods. And it is here that improvement is immediately required.[1]

Co-operative credit has a big future before it in this country of small cultivators. The progress the movement has so far made is very encouraging. It enables the small farmer to free himself from the clutches of the usurious village money-lender and to obtain capital for agricultural operations at a low rate of interest. It also renders it possible for him to make permanent improvements in his land and to practice thrift by teaching him the value of productive expenditure and saving. The problem of supplying the cultivator, seed, manure and implements of the right quality at reasonable prices can be solved effectively through co-operation. The bigger landlords must have special banks for their purpose as their demand and resources are larger.

Agricultural capital takes the form of seed, manures, water supply and implements as also the subsistence of the farmer and his labourers whenever they are employed. The importance of pure, selected seed[1] to good farming cannot be exaggerated. The ordinary cultivator has

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1 Speaking of the conditions in a typical dry Deccan village, Dr. Mann observes :—" Very little advance in implements and methods seems to have been made though some new crops have been introduced in recent years. As to the implements of cultivation, a complete set such is as used by the people would cost about Rs. 40 and they are all made locally from beginning to end. The wood is in all p[illegible]he village, the carpenter is a servant of the village, and [illegible]ing[illegible] for the very small quantity of iron required for the tip of the ploughshare and the blades of various other cutting implements, the village would be quite independent. All repairs to these implements, are paid for in *baluta*, or a fixed charge on each crop produced,—but the carpenters are paid in cash for new implements made. The use of the modern iron plough is only just beginning, and the hire of these from Poona shows signs of being taken up."

not the means and the facilities to secure good seed and therefore, the quality of the crops raised by him, is indifferent. The Agricultural Departments are now placing good seed at the disposal of cultivators. In the matter of manure there is a great deal of waste going on at present. Farm-yard manure and cow-dung are not properly utilized and improved manures are not within the means of the common rayat. The attention of the Agricultural Departments has been drawn to this question also and efforts are being made to improve the existing state of things. As to water supply, rainfall is precarious and insufficient over large tracts of the country, and the agricultural industry is often at the mercy of nature. Lands irrigated by canals and wells are in a fortunate position, and in them the condition of agriculture is comparatively satisfactory. Of about 225 million acres of cropped area in British India, not more than 48 million acres are irrigated.[1] "The total area irrigated in 1916-17 was 47,946,000 acres, as against 46,898,000 in the preceding year. Of this, 19,230,000 acres was irrigated from Government canals, 2,561,000 acres from private canals, 7,224,000 from tanks, 12,034,000 from wells, and 6,897,000 acres from other sources of irrigation. In India irrigation on an extensive scale is ordinarily resorted to in tracts where the rainfall is most precarious. In Lower Burma, Assam, Eastern Bengal and on the Malabar Coast (including the Konkan) where the rainfall is ordinarily heavy, the crops hardly need the help of irrigation unless

1 The area under crop in India irrigated by Government works is 25 million acres and this is in addition to the area irrigated by private irrigation works chiefly tanks and wells, which is also roughly estimated act 25 million acres. So the total irrigated area is brought up to 50 million acres or 26 6 per cent. of the net cropped area. The proportions vary in different provinces. In the Punjab 42 per cent. of the net cropped area is irrigated by Government works, in Madras 18 8, in the N. W. F. Province 13·4 and in Bihar and Orissa 10·6. The total. capital outlay on irrigation works in India is Rs. 69 crores which produced last year revenue of Rs. 636 lakhs or 7·06 per cent. The value of crops raised through the assistance of these works is estimated at 82 crores.

there is unusual scarcity of rain. Of the total area irrigated in 1916-17, 25 per cent. was in the Punjab, 21 per cent. in the Madras Presidency, 23 per cent. in the United Provinces, 10 per cent in Bihar and Orissa, 8 per cent. in Sind and the remaining 13 per cent. in the other Provinces."[1] The following figures will be found interesting in this connection:—

	Proportion of Irrigated to Total Cropped Area.
Sind	82 per cent.
Punjab	48 " "
North-West Frontier Province ...	39 " "
United Provinces	30 " "
Ajmer-Merwara	29 " "
Madras	29 " "
Bihar and Orissa	18 " "
Delhi	17 " "
Bengal	9 " "
Burma	9 " "
Assam	6 " "
Bombay	3 " "
Central Provinces and Berar ...	2 " "
Coorg	3 " "
Manipur	2 " "

The draught cattle possessed by the farmer form an important part of his capital. The number and quality of live stock determine the condition of the agricultural industry in all countries and especially in India where improved machinery is yet hardly used. Scarcity and famine have made a havock in the number of agricultural cattle and the social effects of this dimunition are serious. Stock raising is practised here and there, but it can be done and must be encouraged by big landlords. The following are statistics in connection with live stock in British India.

Census of Livestock in British India.

The number of cattle in British India (excluding Native States) is approximately 148,900,000. Of this, bulls

1 Agricultural Statistics of Indis, 1916-17.

and bullocks account for 49,000,000; cows for 37,800,000; buffaloes for 19,200,000; and young stock for 42,900,000. The provinces which possess the largest number of cattle are :—

The United Provinces	31,700,000	(21 p. c. of total)
Bengal	... 25,300.000	(17 ,,).
Madras	... 21,800,000	(15 ,,).
Bihar and Orissa	... 20,100,000	(13 ,,).

The number of sheep is given at 23,000.000 of which Madras possesses 10,800,000 and the Punjab 4,700,000. The number of goats is 33,600,000; horses and ponies 1,700,000; mules and donkeys 1,600,000. The statistics relating to sheep, goats, horses and ponies, and mules and donkeys, exclude Bengal. The total number of ploughs in British India is estimated at 19,331,000 and of carts at 4,910.000.

44. Improved Implements.—Well-irrigation means a considerable outlay of capital to which only a few cultivators are equal; and unless there is an assured supply of water, there is no certainty of a crop being obtained and rich manures cannot be employed. Dry farming is much too common in this country, the nature and the size of the crops depending entirely upon the character of the monsoon. It is believed that there are in existence in India at least 30 lakhs of wells from which water is lifted for irrigation. If mechanically driven pumps would be used in connection with even a fraction of this number, the advantage will be considerable. The question of inducing the Indian agriculturist to make use of improved implements and machinery is surrounded with difficulty. If the quantity and quality of agricultural produce is to be improved and the efficiency of labour is to be enhanced, implements and

hand-driven machinery of an improved pattern must be largely used. Iron ploughs are coming more commonly into use, as also iron cane-crushers and water lifts but the same remark cannot be made of agricultural machinery in general.[1]

It is well-known that agriculture does not provide much scope for the use of machinery. Yet machinery is coming into larger use on the bigger farms and in industries connected with agriculture. Ginning and pressing cotton, the crushing of sugarcane, pressing of oil from seeds, manipulating operations in connection with ground-nuts, as well as the lifting of water from wells and rivers—these call for the use of machinery and motive power. This development has given rise to a new industry and iron water-lifts and crushers are being turned out in small factories in various parts of the country. The increasing demand for cotton, sugar, oil seeds and the high prices which these command in external markets, have

1 "Much success has, undoubtedly, been obtained in the introduction of grain winnowers, cane-crushing machinery" &c. But in recommending the introduction of reaping machines or heavy English ploughs caution is necessary. Reaping machines may be useful on large estates where labour is scarce, but the whole rural economy of a tract where population is dense, may be upset by their use. A large amount of cheap labour which ordinarily does the reaping is thrown out of employment: the gleaners lose their recognized perquisites. In the case of heavy ploughs, the advisability of deep ploughing has first to be proved. In both cases the capacity of the available cattle and the difficulty of replacing broken spare parts and of carrying out repairs are serious obstacles to the introduction of foreign machinery. As in the case of plants, the improvement of the local material which the cultivator can himself make and repair and which his cattle can draw, seems the more hopeful line of improvement."—"Agriculture in India" by Mr. James Mackenna.

encouraged the use of machinery in the industries connected with these raw materials.[1]

In towns and cities, mechanical power is being employed for pressing oil, making flour and for similar other purposes. Flour mills are becoming very popular with the mass of people in towns, and gins have almost entirely superceded the domestic industry in which women were engaged. There is visible a growing tendency to substitute hand labour by power-driven machinery wherever possible and the bullock cart is making room for motor transport. How the small industries may be improved if capital is made available to the artisans on easy terms is demonstrated by the way in which the sewing machine has come into extensive use and displaced manual labour in the tailoring trade during the last generation

45. Manufacturing Capital.—It is impossible to form a correct estimate of the amount of the capital employed in the different industries in India and to say what increase there has been in its quantity within recent years. Thers is no doubt about the fact that more capital

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1 "During the past ten years the industrial tendencies in the Madras Presidency have mainly exhibited themselves in the supercession of hand labour by machinery driven by power derived from steam or internal combustion engines. The main factor has been the development of the use of the internal combustion engine, which enables small quantities of power to be generated both cheaply and by methods which require no great amount of technical skill to supervise. In the deltaic districts of Godavari, Kistna and the Cauvery, which are almost wholly given up to the cultivation of paddy, the primitive methods of husking by hand have to a large extent been superceded by modern machinery. As the result of measures deliberately taken by Government, there has been a similar application of motive power on a small scale to the raising of water for irrigation; and finally as the result, partly of direct Government assistance, and partly of progressive private effort, a number of what may be termed rural factories have come into existence, which use machine processes usually on the smallest scale that it is practicable to employ them. Such factories employ machinery for ginning cotton, crushing sugar-cane, extracting palmyra fibre, pressing oil seeds, and cutting timber. In the towns power is being similarly employed in an even more varied manner."—Census Report, 1911: page 427.

is being invested in new industries which are rising on all sides, and the people are coming more and more to appreciate the advantage of lending their savings to industrial and commercial concerns. The very failure of numerous banking, manufacturing and commercial concerns which occurred a few years ago, was eloquent enough in this respect as it showed the weakness and strength of modern Indian industrialism. And the industrial boom which burst out on the termination of the war and on the removal of State restriction of eth investment of capital, clearly proved the enormons profits some people had made during war time and the opportunities that were opened for the establishment of new industries.

If the small improvements which are being effected here and there are omitted, we may say that there is no appreciable increase in the amount of capital invested by the people in the agricultural industry and in the small handicrafts. It is only in the manufacturing industries that a remarkable development has taken place in this respect. Excepting the cotton industry of Bombay, however, and other industries of extremely moderate dimensions elsewhere, they have owed their rise and prosperity mainly to European initiative and capital. Indian enterprise is slowly but steadily making its way in industrial orgainzation and expansion and it has been strikingly stimulated by war time prosperity. It is profits brought in by trade, especially foreign trade, that have been the main feeder of capital sunk in industrial enterprises of the modern type.

Almost the whole capital of the cotton mills,[1] amounting to no less than twenty five crores of rupees, has been raised in India. The tea plantations which have a little larger amount of capital invested in them, are most of them joint stock concerns registered in the United Kingdom. The jute industry with a capital of more than thirteen crores, is also financed by European capital. Industries connected with wool, silk, sugar, paper, tiles, cement &c.

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1. The capital values of several mills has enormously increased since the war.

have also absorbed considerable capital, some of which, particularly in Bombay, is Indian, and there is much scope for expansion in this field. Several woollen mills, tile factories, tanneries, sugar factories and oil mills have been recently floated with indigenous capital. The value of mineral production in India is steadily increasing, and the bulk of the capital invested in the coal and gold mines has been imported. The fact is that the large quantities of capital which are required for manufacturing and mining industries have not been available in India, and they have not been forthcoming because, so far as the people of this country are concerned, the enterprise, the expert knowledge and the organizing capacity as well as the facilities which are necessary for the establishment of such concerns, are practically absent in India.

A remarkable exception has been recently provided by the Tata Iron and Steel Company which was floated in 1907, with exclusively Indian capital of more than two crores of rupees. This undertaking has been further expanded and no difficulty has been experienced in getting the necessary capital. The fact is that there is considerable latent capital in the country which may enable enterprising people to start new industries provided they can inspire confidence. The history of manufacturing, commercial and banking concerns which have been floated in recent years, proves that the sources of Indian capital have not been properly tapped and that they are calculated to yield a rich harvest. Sound concerns under the management of experienced and well-known industrialists, rarely fail to attract the requisite capital, most of which, however, comes from the commercial and the professional classes.

46. Existing Facilities:–The position of rural areas with respect to the creation and accessibility of industrial capital differs from that of large commercial centres. There is, however, considerable accumulation of capital in the mofussil and a part of the annual savings is put to an industrial use. But owing to the lack of banking facilities and the infancy of the co-operative movement,

the small savings of the rural population cannot be collected and made available for the expansion of industries ; nor can the cultivator or the artisan draw upon a bank to satisfy his capital needs. The village money-lender accomodates the small farmer and craftsman and exacts a high price for his services. It is only larger concerns and big industrialists that can secure help from the banks which cannot deal with the rayat or the artisan. Large and small banks must, therefore, be multiplied throughout the country and business habits must be inculcated among the mass of the people.

The difficulties about capital are not so serious in the cities and presidency towns. In this Presidency, in particular, it is stated, the position is very favourable. But in the country as a whole, the banking system is too inelastic and insufficient to meet the requirements of the people. The small industrial organizer or trader is hampered by the lack of capital and of the sources from which it may be obtained. He cannot get into touch with a bank which may help him and the expansion of banking and Government assistance appear to be the remedies that must be applied to improve the existing state of things. The report of the Indian Industrial Commission has laid special stress upon this aspect of the capital problem and indicated the directions in which reform is called for. [1]

47. The Hoarding Habit :—Much has been made of the hoarded wealth of India, and exaggerated views are held about its size. It has been estimated at anything between 500 and 800 crores of rupees. By hoarding is, of course, meant the habit of allowing wealth to lie idle and of making an unremunerative use of what might

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1. "In the case of small industries and of those that are new to India witnesses complained bitterly that the public are unwilling to invest, that sufficient capital cannot be obtained from the friends and acquaintances of the promoters, and that banks are unwilling to supplement the deficiency or even to provide working capital. Money for such purposes can only be obtained at a rate so high as to swallow up the profits of the venture."—Report of the Indian Industrial Commission, page 214.

have been employed in the further production of wealth. Some wealth of this description in India may certainly be converted into capital, and the spread of education, the growth of the saving habit and the provision of banking facilities may be calculated to bring about this change. On the whole, the people of this country are thrifty, and certain classes habitually practise thrift and do lending business.

Even taking the highest estimate of the so-called hoarded wealth of India, we find that its amount does not exceed Rs. 25 per head of the population, that is, about one year's average per capita income. [1]. A large part of the total obviously consists of the jewellery of the princes and landlords, and the share for which the bulk of the population is responsible, must be extremely small. Apart from the fact that every pie of the hoarded wealth is urgently required for use as capital in the country, the total amount is as nothing compared with the hoards of other countries. Fondness for pomp and show is inherent in human nature, and Indians are not different in this respect from other people.

The habit of hoarding is fostered by insecurity, the absence of a strong government, ignorance and by a love of ostentation and display. The hoard of an average family in India consists of the trinkets on the persons of women and children and rarely of men. Education will cure the Indian population of this love of ornaments but even in progressive countries fashion dictates the locking up of a large amount of wealth in jewellery. In India jewellery has been the average person's bank which yields no interest and does not always ensure security. But it is the easiest and the most convenient method of saving

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1. In an article contributed to the *Indiaman*. Mr. A. C. Chatterjee shows that the 'countless hoards of India are a myth and says that 'according to careful estimates made by competent observers, such savings do not exceed ten rupees on the average of the whole population. He is inclined to think that 'five rupees per head is perhaps a more correct figure and this would amount in the aggregate to a hundred million sterling in the whole of India.'

and keeping wealth, in the absence of a knowledge of the advantages of banking. The trinkets are given as a pledge to the money-lender and on their security loans are raised. The social customs of the people require that married women must have a certain quantity of jewllery on their persons and among Hindus the 'Stridhana' is the exclusive property and the standby of women. As soon as a man has made a small saving, he will hasten to convert it into an ornament for himself, his wife or his child.

Even people of the middle class have often to pledge their jewellery for raising capital. As soon as the purpose for which the jewellery was pawned is fulfilled, the profits are once more turned into ornaments. With the establishment of peace and orderly government under British rule, has come security of life and property, and ornaments need no longer be the deposit bank of any class of people. But it is ignorance, a lack of banking facilities and old customs that still stand in the way. Our princes, chiefs, noblemen, jamindars and other wealthy people have not yet become familiar with modern methods of commerce, industry and banking. They are slowly coming to understand the benefit that may be derived from the investment of their surplus income in Government securities and in industrial enterprises and that is a very hopeful sign.

48. Conditions of Saving:—There are other conditions besides security of property which make accumulation of capital possible. The income of individuals and communities must be sufficient to enable them to lay by wealth for future use. Foresight and thrift are also equally necessary. There are people who take no thought of the morrow and do not realise the importance of providing against a rainy day. The ambition to live a life of independence and ease and to make provision for the proper bringing up of children, is likewise an important factor. In backward communities and classes these motives are absent or feeble. Instances are not wanting in India of persons who will stint themselves to provide for the education of their children or to leave to them a decent source of income. The indebtedness of the common

rayat shows that this motive is not strong in him, but it is more the result of his poverty and ignorance than of extravagance.

Under the modern industrial organization, wealth is coming to be concentrated in a few hands, and the margin for saving is so large in their case that they do not know what to do with the surplus. Profits of commerce and industry which have been very high owing to war in large cities like Calcutta and Bombay, return in part for invetsment as capital. There is no true abstinence in their case because there is no sacrifice involved. People will not also save unless they have the means of securely depositing their savings or can use them remuneratively. There must, therefore, be sufficient scope for investment as well as satisfactory provision for the safe keeping of the savings, large and small, These opportunities are now opening out before all classes in India and co-operative societies, joint stock companies and commercial undertakings which are rising up in all directions, are an unmistakable proof of this development.

That the motive to save has not been very strong among all classes in India and that the tendency to spend on ceremonies and festivals is marked among the people may be readily admitted. But we must point out that the views usually held in this connection are exaggerated. Prof. Marshall thus says of the Indian people:— "They make intermittent provision for the near future, but scarcely any permanent provision for the distant future; the great engineering works by which their productive resources have been so much increased, have been made chiefly with the capital of the much less self-denying race of Englishmen."[1] Prof. Marshall does not know that roads, wells, tanks, canals, waterways, gardens and other works were constructed with the savings of the Indian people long before British capital could come to this country, and these old works are a monument to the patience, foresight and self-denial of the misunderstood Indian races. And it may be asked, when did the race of Englishmen begin to

1 Economics of Industry, page 131.

accumulate capital in large quantities, to use it for big engineering works and to lend it to other nations? It is so unscientific and grossly unfair to judge a poor and backward people by the standard of a wealth yand advanced nation and to apply the same test to peoples differently situated, politically and economically.

49. Capital as a Power.—The conflict between capital and labour, which has become intensely bitter in western countries and the socialistic movement which has spread widely in the world, show what a great power capital has become in modern times and how its despotic rule is being strongly resented and attacked. Capital is only one of the factors of wealth-production, but it so dominates the economic organization of the present day that the modern industrial *regime* itself has been characterized as capitalistic. Though the theories of socialists like Karl Marx, according to which labour is the sole cause of value and is therefore entitled to the whole output of production, are exaggerations, they only indicate how strong is the feeling of resentment that has been aroused in the minds of workers against the wealth and power of those who command capital and, therefore, labour. It is the concentration of capital in a few hands and the wage system under which the workers feel that they are made to work like slaves without any control of industry and are robbed of their due reward by the employer, that have led to the revolt of labour, and it is to fight organization of capital that workmen's associations have been formed.

In India industrial organization is yet mostly of the simple kind. The Jamindar or the big landlord is a capitalist and wields enormous power. The position of his tenants is one of helplessness and the State has had to intervene to protect them by laws. The money-lender is also a capitalist whose capital is, however, mostly lucrative capital. He is very often looked upon as a great tyrant because he exacts outrageously high rates of interest for the capital he lends. The borrower seeks a loan for purchasing necessaries of life or the raw materials and implements of his industry and by mortgaging his land and

pledging his trinkets often becomes the slave of the money-lender. As he can command labour, the capitalist, whether urban or rural, must wield considerable power, and workmen, ignorant, helpless and unorganized, are at his mercy. Like the Jewish usurers of Europe, the Indian money-lenders have acquired a bad name, but it will be unjust to tar the whole class with the same brush. If some money-lenders are extortionate and harsh, others are kind and considerate. And the village money-lender is the friend of the rayat and the craftsman.[1]

The relations of capitalists and workmen are mostly regulated by custom, and it is only latterly that labourers have become conscious of their rights. They are slowly becoming independent as varied avenues of work are being opened to them and the demand for their labour is steadily increasing. The development is, therefore, from status to contract, and is the result of changing economic conditions. The spread of the factory system and the aggregation of hundreds and thousands of workers in mills, are tending to reproduce western labour conditions in India and the economic conflict has already been initiated. The numerous strikes of recent occurrence are an index of the economic change which cannot be mistaken.

50. Foreign and Indigenous Capital.—We have already pointed out that most of the large industries in India, particularly the manufacturing, mining, engineering and planting industries, are financed by foreign capital. For the construction of such public works as railways and canals, the State has adopted the policy of attracting British capital. The country has surely benefited by this policy inasmuch as those productive works could not have been otherwise carried out. London is the largest

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1 The Famine Commission of 1880 observed :—"However just may be the terms of abhorrence applied to the "Marwari" or foreign usurer, it must be remembered that he is the product of a diseased condition of the community. The like condemnation must not be extended to the village banker of the better class, with whose useful services the rural communities of India have at no time been able to dispense."

source of capital for British colonies and foreign countries, and England had on an average, before the war, about Rs. 300 crores to lend every year.

Capital has become cosmopolitan and was cheap in western countries before the war. The railways in the colonies and countries like China and Turkey, have been constructed with the help of English and French capital. Dissatisfaction is often expressed in England that so much capital goes out of the country every year to fertilise foreign countries and that indigenous industries have to starve. It is obvious that on account of the wastage of the disastrous war, for several years to come capital will be scarce and dear in the world and India will be thrown upon her own resources. In one way this will not be an undesirable effect as saving will thereby be stimulated and larger amounts of indigenous capital will be available for our trade and industries.

The benefits which the importation of foreign capital has conferred upon the Indian people, is duly recognized, and any opposition to the employment of foreign capital as such will be unreasonable. Capital, like labour, must be paid its price, and if a country does not possess capital of its own, it must import it. The objection, however, is raised, as has been well said, not against foreign capital but against the foreign capitalist. [1]

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1 Besides the disadvantage of the employment of foreign capital that its profits go out of the country, there is another, viz. that foreign capitalists show a strong tendency to oppose measures of political and other reforms which, in their opinion, are calculated to threaten the security of their investments but which, in reality, are necessary for the economic development of the country. The cry of 'capital in danger' is as frequently heard as the cry 'religion in danger' when questions of reform are mooted.

Mr. Dutt[1] characterises the employment by the State of foreign capital for its railways as an instance of 'the right use of foreign capital;' and equally right will be its use if only interest had to be paid on it and it were employed by Indians who would derive all the profit out of its employment. He, therefore, maintains that "when we turn to the petroleum industry in Burma, the gold mines of Mysore, the coal mines of Bengal, the tea and jute industries, the carrying trade by sea and the financing of our vast foreign trade by foreign banks, we come upon another and a less favourable aspect of the question of the investment of foreign capital. It is impossible to estimate accurately the amount of wealth that goes out of the country in this manner, though an approximate idea can be had of it from the excess of our exports over our imports after omitting Government transactions."

51. Capital and Banks.—The subject of banking and credit will be separately dealt with in a subsequent Chapter. We have to refer here to the facilities that at present exist and that must be provided in order to make industries more productive and to assist the starting of new industries. During recent years, banking has made considerable progress in India in spite of the failure of several indigenous banks in 1913. The big concerns of the western type viz. the Presidency Banks, Exchange Banks

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1. "The great mistake to be guarded against is that, because certain capital used in India is foreign, it must, therefore, do harm to the country. It has, of course, to be considered that we ought not to pay too high a price for it."—R. C. Dutt: Calcutta Industrial Conference, 1906.

Mr. Dutt quotes Mr. (now Sir Thomas) Holland in support of this view. Speaking of our successful exploitation of the petroleum fields of Burma the latter observed in a paper read before the Industrial Conference in 1905:—"The one regrettable feature is the fact that the capital required to drill the deep wells has been raised in Europe, and the profits consequently have left the country. In the petroleum industry as in so many other enterprises of the kind, India will continue to pay such an unnecessary and undesirable tax as long as those in the country who possess money will not risk their reserve fund in industrial purposes."

and Indian Joint Stock Banks are almost exclusively concerned with the financing of trade. All of them receive deposits, make loans and deal in bills of exchange, the second class of banks buying and selling foreign exchange, besides. The total deposits of the three Presidency Banks, the Exchange Banks and the principal joint stock banks now exceed 160 crores, the amount in the case of the last alone being 42 crores. Compared with western countries, India is very backward in banking and therefore in industrial development.

There are, besides, Indian shroffs and bankers who likewise finance internal trade. The savings of the people are, however, deposited with the above named banks and with Postal Savings Banks, the deposits in the latter amounting, in 1918-19, to Rs. 19 crores. Co-operative credit banks come last with only Rs. 12 crores as deposits. The banking habit is certainly growing upon the people, and the war loans and cash certificates have provided a very useful practical lesson of the advantages of investing even small savings. More banks and investing facilities are, however, needed and the banks must be scattered all over the country, collecting small amounts and lending them for productive purposes. The banks do not reach the small cultivator, craftsman and trader and if co-operative banks are excepted, it may be stated, that the rural and urban sowkars are the source from which loans are obtained. These money-lenders charge exorbitant rates of interest, anything between 10 and 100 p. c., and it is not a wonder if the debtors are ruined instead of benefiting by the loans of capital. The Tata Industrial Bank is a step in the right direction and will supply capital to new industries. Many such banks, in-dependent or State-aided are required for the financing of industrial ventures.

As we have observed above, the greatest need of the hour in India is that of banking facilities in all parts of the country and of industrial as well as financial capital which will be easily available even to classes of small producers. The assistance rendered by the Presidency

Banks is absolutely inadequate, and more banks must be started and scattered all over the country. These may not, however, be able to give credit for long periods as is required for industries, and special industrial banks will have to be established with State assistance. There is so much State money lying in the Reserves of the Government, and it may be made available for the encouragement of indigenous industries. Crores of rupees belonging to the Paper Currency and the Gold Standard Reserves are lent in England; they may be kept in India and placed at the disposal of enterprising men in this country, of course with the necessary safeguards. This supremely important object can be attained by the institution of a State Bank and the establishment of industrial banks.

There can be no doubt about the fact that the existing financial machinery under which village and town sowkars and shroffs, joint stock banks, Presidency Banks and Exchange Banks, together with the co-operative credit societies and the Government, which gives loans to agriculturists for improvements, supply capital to Indian trade and industry, is unequal to the requirements of the economic progress of the country.

The Industrial Commission gave its best attention to the problem of finance of indigenous industries and its report contains several valuable suggestions regarding the help which the State can and ought to render in this connection. It has considered the lines on which industrial banks should be conducted and the terms on which Government should assist industrialists with the capital they need. This is a question which the State in India must seriously tackle if it is to play any important part in the promotion of the economic development of the country. Government's policy of giving agricultural loans and advances to cultivators under the Land Improvement Loans Act of 1883 and the Agriculturists' Loan Act of 1884 has not proved a success and salvation has had to be sought in the co-operative movement.

This illustration, shows how deficient is the supply of agricultural capital, and what is true of agriculture is also

true of other indigenous industries, large and small, particularly small. The small savings of the people, it need not be repeated, will have to be collected in banks scattered throughout the country and must be supplemented with State money. In France, for instance, the State assists agricultural and other associations with capital in this way. Of course, a sound system will have to be devised under which the object in view will be attained with safety to the tax-payer and consistently with the healthy progress of indigenous industries and banking. Co-operative credit societies are playing an important role in connection with the capital needs of the agricultural population and the number of the members of these institutions and the amount of working capital dealt with by them are steadily increasing. The possibilities of development in this direction are immense and Indian agriculture is bound to show greater improvement with expanding facilities of credit and capital.

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1 "The former enactment authorises the grant of loans by local officers, subject to rules laid down by the local Governments for the purpose of making any improvement, an improvement being defined as any work that adds to the letting value of the land. Wells take the first place among such works. Loans are repayable by instalments and recoverable generally as if they were arrears of land revenue. The Agriculturists' Loans Act makes similar provisions for advances for other purposes, not specified in the Land Improvement Loans Act but connected with agricultural objects, including the relief of distress, the purchase of seed and cattle. The rate of interest on Government advances is $6\frac{1}{4}$ per cent. (one anna in the rupee) or less, as compared with 12 to 24 per cent. or more exacted by the village money lender; but advances are made only for specific proposes, they entail more formalities than the village loan, and the repayment is enforced with greater rigidity, so that in the past Government loans, though large in the aggregate have not had any great influence on the agricultural credit of the country."—Moral and Material Progress Report, 1911.

CHAPTER VI.

Organization of Production.

REFERENCES.

ELY: Evolution OF Industrial Society, MARSHALL: Economics of Industry; THEODORE MORISON; Economic Transition in India; General Report on the Census of India; Report on the Joint Stock Companies in India· Decennial Statement exhibiting the Moral and Material Progress and Condition of India; A. K. COOMARASWAMI: Indian Idealism; Imperial Gazetteer of India, Vol. III.; DR. H. H. MANN Life and Labour in a Deccan Village; Report of the Committee appointed to make proposals on the consolidation of small and scattered holdings in Baroda: Report of the Indian Industrial Commission; Provincial Reports on the condition of Indigenous Industries; Reports on the organization and work of Co-operative Societies.

52. Industrial Evolution:—Economists trace the development of the organization of the production of wealth through its different stages from the self-sufficing form of individual or family wealth creation to the factory regime of modern times. Production upon a large scale, with the assistance of armies of operatives and of vast quantities of capital for an extensive market, is the most striking characteristic of the present day. The use of machinery, the easy and plentiful supply of capital and improvements in the means of communication, have produced remarkable social and economic effects. The cultivator no longer produces for his own family or his own village but supplies, though unconsciously, the most distant markets with the produce of his field. The artisan is no longer an autonomous worker plying his tools at home and the owner of the commodities he turns out. The craftsmen, as independent workers, have been displaced by employers of masses of labour and machinery and they have been reduced to the condition of people working for a wage in factories owned by huge

companies or by wealthy individuals. The old local and national markets have become extensive and international, and a minute division of labour and concentration in production, have been the result.

When life is very simple, a family is self-sufficient, producing every thing it needs, except perhaps a few articles which cannot be locally obtained. The use of machinery is both a cause and an effect of a minute division of an industry into different operations. Specialization is to be found not only in connection with separate crafts but also with distinct branches of the same craft. This industrial evolution may be marked in the economic history of every community, and India is no exception to the general rule. The 'capitalist' or 'factory' system has not, however, entirely superceded the domestic or craft systems even in western countries, and this phenomenon is more remarkable in India than elsewhere.[1] Here large industries and large farming are exceptions and the industrial organization of the old type still persists despite the encroachment of modern methodes of production and transport.

Almost all the old indigenous industries are small and are carried on in the homes of the autonomous workers. The spinner, the weaver, the potter, the oilpresser, the leather worker, the shoe-maker are all producers of this type. They own the simple tools of their trades, but have very often to depend upon the neighbouring money-lender for the supply of capital in the form of raw materials and food &c. Very rarely craftsmen may combine and carry on the business on the partnership principle. Partnership has been well-known in India from very old times and is

1 "Even now-a-days, although the factory is the characteristic mode of industry, all the other forms are still to be found. We see traces of domestic industry in the peasants' houses where the wife bakes the bread and spins tho flax for the household linen ; and in some of the provincial towns where jam-making, ham-curing and washing are done at home and have not yet become industries. In all towns a large number of artisans may still be found plying diverse trades and working for their customers as in the Middle Ages. And there are still manufactories which employ only hand labour."—Gide : Political Economy.

generally practised in trades which cannot be well managed by a single worker, though assisted by the members of his family. We have references to trade and industries conducted by partners and the rules regulating such organization in the most ancient Indian literature and the partnership principle seems to have been extensively practised.[1] Autonomous producers work in their own homes and turn out goods which command ready sale in the local or the neighbouring market. Some special products of well-known centres *e. g.* Benares silks, are in demand in distant parts of the country. The craftsmen will also work to the order of local customers, but this demand is not sufficient and their goods are generally purchased by the merchants in the locality, who send them to different markets.[2]

53. The Situation.—Craftsmen working in their own homes may not often be autonomous producers. The merchant, who is also the money lender of the village or town, gives out pieces of work to be done in the homes of the craftsmen. He supplies the raw material but rarely also the tools, and takes away the finished product paying

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1 See Kauitlya's Arthashastra and Majumdar's Corporate Life in Ancient India.

2 "The arts and manufactures of India are more easily separable into sections, corresponding with hand labour and steam power, than are those of most countries; for handicrafts in spite of the mechanical developments of the past century, are still very important to the Indian people. The earpenter, the potter, the blacksmith, the weaver, the dyer, the tailor, the shoemaker and the sweetmeat-maker are recognized members of most village communitias. The higher crafts—those of artistic workers in wood, clay, stone, metals, and textiles—are carried on in special localities and in direct relationship to physical and administrative conditions. When, for instance, hand labour industries are practised on a large scale they tend to become centralized in important towns. Steam-power manufactures are not in any way indigenous industries, but have been originated, and are controlled, by the supply of raw material and fuel, by the facilities of transport and by the degree of association with European enterprise."—Decennial Report on Moral and Material Progress, 1913.

the worker only a small wage. The worker is thereby relieved of all responsibility and escapes the trouble involved in finding capital and disposing of the finished product. But he is, at the same time, reduced to the position of a drudge, and the sense of ownership and independence is entirely lost. The capitalist may also set up a factory in his own house and require the craftsmen to work there. He supplies the tools and the raw material and the workers are mere wage-earners. They share neither the responsibility nor the profits of the trade.

An employer who finds that there is a good and steady demand for a certain kind of commodities in a locality, will organize an industry in this way in a town, on account of its market or transport facilities or artisans may be attracted to such an industrial centre by tempting prospects. Rajas and noblemen used to invite craftsmen to their towns and to give them special facilities to settle and ply their trades. The immigration of artisans led to the prosperity of the town as well as their own, and the localization of certain industries in the cities of old, in the times of Mahomedan and Maratha rule, may be traced to this cause. [1]

The handloom weaving industry in India is a typical one, and the problem before the country in recent times has been how to enable it to stand the competition of

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1 " The silk and embroidery industry of Poona was entirely due to the encouragement given to the foreign settlers from Burhanpur, Paithan and other towns to come and live under the Peishwa's protection on house sites which were granted free to them. Individual merchants were encouraged in large towns to open shops with the help of Government advances."—Ranade : Introduction to the Peishwas' Diaries.

power-looms. It is believed that the production of cloth in the Indian mills has not yet been able to overtake the quantity turned out by hand-looms and that if the weavers are supplied with improved appliances and capital and if the industry is better organized, it has yet a good future before it. Attempts have been made to devise a suitable improved loom that may be used by the weavers with greater advantage, and weaving classes and factories have also been tried. It is, however, difficult to say whether these endeavours have met with any appreciable success. The small indigenous industries persist because they satisfy a special demand of local consumers, which can not be met by the products of factories, foreign or Indian, or cheap factory-made articles do not reach the interior parts of the country.

54. Large-scale Production:—Concentration of capital and production of wealth with the help of machinery, render large economies possible and are calculated to yield high returns. A number of producers may thus combine together and the advantages of this kind of co-operation are obvious. Though co-operative production prevails to a certain extent in various countries, owing to peculiar causes, it has not made any notable progress. Weavers' and other co-operative societies which already exist in India, show what may be attempted in that direction in the case of other crafts. In India, we have numerous associations for credit but there are very few societies for production, and in agriculture where the co-operative movement is spreading statisfactorily, this form of association finds little favour. Two or three farmers often take land on lease and work it in combination, but this is exceptional. The development of the factory system in this country has been synchronous with the growing application of the joint stock principle to industry. Under the factory system, which is the predominant characteristic of modern times, the small autonomous producer has no place and the economic evolution now going forward in India is a

transition from the domestic and small to the organized and large-scale industry.[1]

The joint stock principle of assoication presents certain advantages:[2] under it large enterprises requiring large quantities of capital can be easily undertaken and persons of small means find in it an attractive method of investment on account of the liability for losses being restricted to the value of the shares held. The partnership method of organization is common enough in India and co-operative production is yet to develop. The needs of production on a large scale, however, require the combination of

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1 "The capitalist employer not only provides the raw material and disposes of the finished product, but also controls the intermediate process. The machinery is so costly as to be beyond the reach of the workman ; and since the machines are the property of the employer the building in which produetion is carried on, must also belong to him and is called the factory. The labouier is not his own master as in the handicraft system ; he no longer owns the tools and the workshop as in the domestic system : all that he does is to provide the human labour force which is applied through machines and in work-places owned by the capitalist employers. The stupendous increase of production which is thus rendered possible reacts upon the labourer both as producer and as consumer. Population increases enormously, and there is a continual drift from the country to the city. Industrial society receives its modern shape, and the social income is divided into the rent of the land-owner, the wages of the labourer, the interest of the capitalist and the profits of the entrepreneur."—Seligman.

2 "The company form makes possible the raising of capital for the very biggest enterprise. It enables the holder of small savings, who does not wish to use them in business himself, and who is not in close enough touch with business to entrust them to any private firm, to invest his savings remuneratively. It is equally useful to the holder of big savings, since it enables him to distribute his capital among many enterprises (and countries), and so avoid the risk of carrying all his eggs in one basket. Since shares in joint stock companies are usually saleable the investor can realize his property in a business without breaking the firm up ; if he were a partner in a private firm and wished to withdraw his capital, either he must find some other capitalist to take his place in the business by buying his share, or he must risk breaking up the firm, since it might be unable to continue without his capital. The joint stock company provides another opening for men with organizing ability but with no capital."—Henry Clay.

capital contributed by several who have savings to spare and men of enterprise and organizing capacity who can utilize the capital and labour of others for wealth-creation in big factories.

55. Joint stock Principle.—It is these advantages which have led to the rapid development of companies formed on the joint stock principle in western countries and that example is being followed in India. Most of the European industrial and commercial enterprises in this country are joint stock concerns. Railways, mills, engineering firms, factories, mines, tea gardens, banks, commercial organizations and other concerns are joint stock companies. And almost all new industries started by Indians take this shape, old individual concerns, when the need of expansion arises, being converted into joint stock companies. There is a limit to the capital advanced by a person or a small group of persons and in order to extend the scope of an industry it becomes necessary to invite more people to join and to hand over the concern to a joint stock company.

The total number of companies limited by shares which have been incorporated in India upto 1917-18 under the laws relating to the registration of companies, amounts to 7,593. Of these, 2,668 companies were working at the end of 1917-18, most of the remainder having been either wound up, or otherwise discontinued or never having commenced business, so that about 65 per cent. of the companies registered have ceased working. Some companies have also been taken off the Indian register to be reconstructed as companies under the English law with their head offices in London, while after the outbreak of war, some companies incorporated in the U. K. were taken off the English register and reconstructed as companies under the Indian Act. All the companies registered in India have a rupee capital with the exception of the Hongkong Shanghai Banking Corporation which was registered in Calcutta in 1869 with a capital in Hongkong dollars of which the rupee equivalent is stated. The number of com-

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panies at work and the capital invested in them stood as follows at the end of each of the three years ending 1917-18:—

	1915–16.	1916–17.	1917–18.
Number of companies	2,476	2,513	2,668
Authorised capital Rs. (1,000)	1,84,20,90	2,00,04,22	2,34,18,84
Paid-up capital Rs. (1,000)	85,02,45	90,89,56	99,09,72

The number of companies registered in Bengal is over two-fifths of the entire number registered throughout India, but the average paid-up capital per company is highest in Bombay, and in this respect Burma occupies the second place, while Bengal the third, the figures for the average being respectively Rs. 6,04,000, Rs. 5,06,000 and Rs. 3,65,000. About three-eights (Rs. 35,31,43,000) of the aggregate paid-up capital is invested in mills and presses, chiefly for working and pressing cotton, jute, wool and silk. A great number of mills and presses are registered in Bombay, that Presidency representing 44 per cent. of this sum (15,63,54,000), most of it being invested in cotton mills and presses. Further information on this point may be obtained from the following statement showing the distribution of the aggregate capital in the principal classes of joint stock enterprise at the end of 1917-18:—

Class of Companies.	Number.	Paid up Capital.
		Rs. (1,000)
Banking and loan	485	10,19,40
Insurance	121	5,59
Navigation ...	23	1,44,45
Railways and tramways ...	56	13,18,64
Other trading companies	805	15,13,08
Cotton mills	192	17,07,86
Jute mills	45	10,31,66
Mills for wool, silk, &c. .. .	16	2,38,62
Cotton and jute screws and presses	129	2,66,61
Rice mills	24	80,05
Flower mills	28	75,30
Other mills and presses	44	1,31,61
Tea planting	286	5,42,39
Other planting companies ..	39	63,23
Coal mining	168	6,75,71
Gold mining	8	24,81
Other mining and quarrying	61	5,40,92
Land and Building	43	3,35,07
Sugar manufacture	18	88,55
Other companies	74	60,34
Total ...	2,668	99,09,72

Statistics have been collected regarding companies which are incorporated outside India chiefly with sterling capital, but which carry on work in India. The total number of such companies towards the close of 1917 is ascertained to have been 607 whose paid up capital amounted to £ 417·7 million besides about £ 127 million issued as debentures. Of this, Railways were responsible for about £ 69½ million of paid up capital and an equal amount of the debentures. Of course, in the case of most of the banking and insurance companies and navigation and trading companies, only a portion of the capital is invested in India.

56. Industrial Enterprise.—Tha recent tendency in India, it will have been noticed, is for the cottage and small industries to be replaced by large concerns carried on mostly on the joint stock principle and with large quantities of capital. But the bulk of the concerns have owed their origin and success to European enterprise and managing capacity.[1] British industrialists had a big start in this field. They came armed with the necessery capital and experience and received every encouragement. Except in the case of the cotton mills, Indians simply looked on with astonishment while foreign economic enterprise steadily expanded and occupied the field of the planting, mining,

1 "The great majority of the larger concerns are financed by European capital, and in such cases the management or direction is generally European, and the Indians shown under this head are engaged for the most part on supervision and clerical work...In Assam, where 549 tea gardens are owned by Europeans and 60 by Indians, there are 536 European and 73 Indian managers. In the coffee plantations of Madras and Mysore the same principle is apparent. The jute mills of Bengal aro financed by European capital and the managers are all Europeans ; while in Bombay, where Indians own 110 of the cotton spinning and weaving mills and share 25 with Europeans and the latter own exclusively only 12, all but 43 of the managers are Indians. Sometimes the proportion of Europeans employed in supervision &c. varies with the character of the work. In the gold mines, where the planning and control of the deep underground workings require a high degree of skill, Europeans outnumber Indians in the ratio of nealy 4 to 1, whereas in the coliericg Indians are twelve times as numerous as Europeans."—Census Report.

textile and engineering industries. When the results of scientific research and manufacturing development in England, "began to reach India in the shape of machine made imports, the movement had passed beyond the stage where imitation might have been easy and when the gradual evolution which had taken place in England could be readily imitated in India"[1] The policy of Government was dominated by the doctrine of *laissez faire*, Indians had no opportunities of gaining experience and no effort was made to impart technical and industrial education. Trained supervisors were imported form England to look after the Indian workers in factories started and managed by Europeans.

There is need in India not only of skilled artisans, trained mechanics and capable foremen, but of enterprising organizers and managers. They will often rise and must be given opportunities to rise from the lower ranks, but general education and special training designed to turn out such persons, will also be necessary.

57. Organizing Capacity.—An industry or trade stared by an enterprising man is bequeathed by him to his sons who will carry it on on the lines laid down. Several concerns are found in India, thus going on from generation to generation in the same families. Customary methods are adhered to and a business will go on successfully for an indefinite period of time unless it is ruined by utter incapacity or fraud of the managers.[2] The children and the relatives of a successful business man find easy opportunities of mounting the higher rungs of the industrial ladder which are denied to less favoured people who are the majority.

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1 Indian Industrial Commission's Report.

2 "The son of a man already established in business starts with so many advantages that we might expect business men even to constitute a sort of caste, dividing out among their sons the chief posts of command, and founding hereditary dynasties, which ruled certain branches of trade for many generations together. But it is not so."—Marshall: Economics of Industry.

In western countries where modern industrialism has an undisputed sway, accumulation of wealth in a few hands has given rise to a class division often as rigid as that of the Indian caste. The working and other classes rarely get opportunities to rise in the economic and social scale, and capital, though it is becoming democratised, is still the exclusive possession of the few, because to be employed in industry, it requires certain facilities which are not easily available.

In India, trades and industries have thus become almost hereditary in families and are distributed among castes and communities. The Parsees, the Marwaris, the Banias and the Khojas, who occupy a prominent position in the industrial and commercial life of Bombay, illustrate the truth of this remark. The majority of mill-owners, it is said, do not prefer to send their sons or relatives to technical colleges as they do not like to work with ordinary labourers and it is the general impression that nearly all the students in the technical colleges are the sons of people of very moderate means and that very few of them, if any, appear to belong to families of wealthy manufacturers, whose sons should be training themselves to be officers in the industrial army.[1]

What happens in the case of the sons[2] of a wealthy business man is that living in an atmosphere which is not favourable to the growth of the habits of initiative and patient and unceasing labour they care more for social

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1 "How are our Indian capitalists educating their boys? Wealth is a stewardship, and the accumulation of great fortunes in individual hands can only be excused on the ground of important services rendered to the country by those holding them."—Report of Eighth Industrial Conference, page 414.

2 "At all events if they were born after he became rich, and in any case his grandchildren, are perhaps left a good deal to the care of domestic servants who are not of the same strong fibre as the parents by whose influence he was educated. And while his highest ambition was probably success in business, they are likely to be at least equally anxious for social distinction."—Marshall.

honours and easy living. The business machine goes on working by the initial force which set it in motion and may be handed over to others possessed of the necessary energy.

Business capacity and enterprise are not certainly hereditary, and the system of caste cannot ensure transmission of these qualities. The evironments in which people live, have great influence upon their careers and a few men of genius exhibit capacity to bend them to their advantage and to conquer difficulties with perseverance. The middle class from which educated men joining the professions and Government service are drawn, find it difficult the get admission to business ranks. Economic pressure is, however, bound to loosen the class and caste fetters which impede progress, and these social divisons are already showing a noteworthy adaptability of which they were supposed to be incapable.

While, therefore, the extended provision of technical education for the creation of a class of trained operatives is necessary, and it is recognized that it is by dint of character and of perseverance that men must and do rise to higher rungs of the industrial ladder, it is believed that the 'most important factors in the increased production of national wealth would, in the case of India at least at present, be the leaders, managers, directors and supervisors of industries. It is the skill, capacity, and training of generals and captains which determine victories more than the bravery and steadiness of the rank and file of the army.' In America and other countries highly educated University men enter business and are found to turn out eminently successful. In Germany special provision is made for the training of organizers and managers of industries. Under a suitable system of education there is no reason why it should not be so in this country also.

58. Small Industries—The displacement of the cottage industries and of autonomous workmen by factories and machinery, is going on apace in India, and the pros-

pect of the patent evils of industrialism coming in the wake of this modern development of large concerns, has caused and rightly caused, no small anxiety to thinking people. The tendency to large-scale production seems to be inevitable; foreign competition and growing needs of the people seem to require it. But the decadence of the old arts and handicrafts, the vitiation of public taste which imports of machine-made cheap goods have caused, the degradation of the workmen to the position of unskilled wage-earners and the migration of the rural population to overcrowded and unhealthy cities, are evils associated with the factory system, and the question has been asked: 'Is Europe going to make Asia an East end?'

Advantages of the concentraction of capital and labour and of the use of labour-saving machinery, are undeniable and India cannot refuse to evail herself of them. Apart from the fact that evils of industrialism may be counteracted by timely measures and precautions, the people of this country cannot help trying to produce wealth with the least possible cost on the lines of progressive nations. But the day for the small industry is not entirely gone. On the contrary, certain peculiar conditions of modern times themselves are favourable to their continuance and growth. Popular taste requires certain hand-made goods, and thus varieties of head gear, dhoties and saries made by the handloom weavers have not been displaced by modern factories. Proximity of the market and of the customer also gives the cottage industry an advantage over the factory, and the former is now-a-days in a position to benefit by mechanical and other improvements which are being made every day. The artisan in the west can now work in his own home with the help of cheap motive power

and machine tools, and the Indian craftsman can adopt his methods.[1]

We have referred on a preceding page to the possibilities of water power in this country and to the success of the Tata Hydro-electric scheme at Lonavla. That success has stimulated further efforts in the same direction and other schemes have been undertaken. If electrical energy generated by water power at different suitable centres in the country is transmitted over distances, many a home industry may be rehabilitated and placed on a sound footing. The hydro-electric schemes are calculated to serve a double purpose *viz.* to supply electric power and irrigate acres of land at the same time, and it is possible to combine two different types of mutually helpful industries under one and the same project.[2] If gas and electricity are now providing social amenities to urban workmen, there is no reason why the craftsman and the mechanic should not be in a position to avail themselves of their motive power for productive purposes.

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1 "The carpenter, if he is furnished with a very cheap motive power which is necessary to set circular saws or other machine tools in motion, will be able to work in his house as well as a great manufacturer. In this way he will be able to utilise his small group of machines in a variety of ways, until he will begin to acquire a perfect command over his work which he could not have been able to attain, if he had been a workman in a great factory. In spite of the advantages on the side of the big manufacturers, the small manufacturer will be in a position to compete with them. He will find an energetic support in the collaboration of the members of his family and in the moral element which will be the consequence of the work in his proper home He will form a number of assistants and apprentices, or in fine a complete industrial organization quite analogous to that of the ancient professions but differing from it only in the introduction of the machine. The improvements of applied science can now supply him with the motive power at a very small cost. The modern developments of the use of electricity might now transmit motive power cheaply to the cottage of a small producer."—Report of the Eighth Industrial Conference, Page 122.

2 See Memorandum submitted to the Industrial Commission by Mr. R. B. Joyner.

59. Vitality of Cottage Industries.—For reasons indicated above, some industries conducted on a small scale by old methods, continue in India and exhibit remarkable vitality. It might have been expected that with more than a century's contact with the West, the indigenous cottage industries should have disappeared almost entirely from the field which was opened to the products of the modern factory, foreign and Indian. But the old industries survive with an astonishing tenacity and it would be a wrong policy to leave them to their fate in the struggle for existence on the principle of the survival of the fittest as it would be unwise to refrain from effecting suitable improvements in them for fear of westernizing Indian industries.

From the evidence tendered before it and from special inquiries made by it, the Industrial Commission concluded that the cottage industries were a very important feature in the industrial life of India, that they were by no means so primitive as they were depicted and that there was no real ground for the belief that they were generally in a decadent condition. The number of workers engaged in those industries, is obviously vastly larger than those employed in factories of the modern type, in mines, and on the railways and the plantations.

The Commission was strongly impressed with the urgent necessity of Government taking active steps for improving the position of the cottage industries by providing suitable training for artisans, by affording financial help and by arranging for the marketting of their products. The success of Japanese industries is due to the attention paid not only to the education and technical training of cottage workers but to the organization of the sale of their products throughout the world. The Commission wants Government and merchants in India to follow these methods so as to place the indigenous cottage industries on a more satisfactory footing.[1]

60. The old and the New.—Co-operation in purchase, production and sale will enable the artisans to

1 Industrial Commission's Report, Chapter XVII.

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overcome difficulties presented by lack of capital and encroachments of large-scale industry. The preservation of the ancient handicrafts of India is an urgent problem in which are involved the interests not only of the millions whose subsistence depends upon them and who cannot be left to the tender mercies of the forces of foreign competition and modern industrialism, but also of Indian culture, indigenous arts and the social and economic well-being of the masses of people.

What is wanted is capital, organization, education and improved tools. "Do not let us compete", the exhortation is addressed to us, "with Western nations by evolving for ourselves a factory system and a capitalist ownership of the means of production corresponding to theirs. Do not let us toil through all the wearisome stages of the industrial revolution—destruction of the gilds, elimination of small workshops, the factory system, *laissez faire*, physical degradation, hideousness, trusts, the unemployed and unemployable and what may be to follow."[1] Mr. Coomaraswami even asks if the 'true hope for Indian industry does not lie in some development of the caste system itself in the village and home industries of the past aided by such improvements as are needed e. g. the fly shuttle or the distribution of electric power'

These remarks raise an extremely difficult problem relating to the evolution of industrial organization in India. Until a few years ago, this country was in the same economic condition as England or France, for instance, about the middle of the eighteenth century.[2]

1 A. K Coomaraswami : Indian Idealism.

2 "In the time of Louis XIV, when inventors were already becoming somewhat numerous, especially in England, the people of Western Europe for the most part continued to till their fields, weave their cloth, and saw and plane their boards by hand, much as the ancient Egyptians had done. Merchandise was still transported in slow, lumbering carts and letters were as long in passing from London to Rome as in the reign of Constantine. Could a peasant, a smith, or a weaver of the age of Cæsar Augustus have visited France or England eighteen hundred years later he would have recognized the familiar flail, forge, and handloom of his own day.'—Robinson and Beard : The Development of Modern Europe, Vol. II, Chapter XVIII.

If an Indian craftsman of the time of Ashoka or Kalidasa were to visit the scenes of his activities now, he would indeed be astonished at the sight of the steam engine, the telegraph wire and the gigantic machinery working in a factory, but he would probably not fail to recognize the familiar handloom, the wooden plough, the revolving water machine[1] and the bullock cart of his own day.

It is interesting to see certain spots in the country completely westernized; in several others a juxta-position of the Western and the Eastern, the new and the old; and in most parts of the interior the ancient forms in their pristine integrity. The incongruity of bullock carts laboriously threading their way through the crowded streets of Bombay with their small burden of a few cotton bales while motor lorries and electric tram cars whizzed past them every moment, has struck many observers; but it only typifies the curious evolution that is going on in the country. The most primitive forms of industry and organization may be witnessed side by side with the most up-to-date factories and machines.

61. Lines of Evolution.—Where modern machinery and motive power are not used, the industry is a home industry and is carried on on a small scale by autonomous workmen. We have indicated above how there is yet a considerable demand for products turned out by craftsmen in the old fashion.[2] What is true of cotton weaving is equally true of several other industries. And in the manufacture of glass, paper, sugar, metal utensils,

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1 'Bhrantimad Vari Yantram.'

2 " Weaving mills are at the present day responsible for by far the larger part of the cotton goods used in India ; but at the census of 1901 twenty four persons out of every thousand were returned as cotton workers, apart from those employed in mills......The hand and power industries occupy to some extent different provinces of supply ; competition from the latter is still small in the case of special classes of goods and clothes woven from the coarsest materials, and there are still markets eminently suited to the hand weaver which the power loom producer does not successfully contest, because the demand is too small or too local."—Decennial Report on Moral and Material Progress, 274.

cutlery, vegetable oils, leather goods, woollens, silks, shawls, carpets and other articles, we have, at the present moment, a two-fold system, the modern factory working side by side with the domestic industry but trying to drive the latter out of existence. There is little scope under the old organization for any extensive division of labour and specialization, and the integration of industry on modern lines is not possible. And where new industries are started, they are of the modern type, e. g. manufacture of soap, candles, glass, iron implements, matches &c.

A geographical division of labour and localization of industries of a sort, has, however, always existed in India so far as that has been allowed by the self-sufficing character of provinces and districts created by distances and difficulties of transport. Climatic, political and social causes brought together certain classes of workers in silk, wool, metals, and gold thread and industries connected with shawls, carpets, vessels &c. became localized. Dacca, Benares, Delhi, Amritsar, Shrinagar, Murshidabad, Ahmedabad, Masulipatam and Madura thus became great centres of industry. Each province has a similar industrial localization of its own.

The steady displacement of these hand industries by machinery driven by power, and the substitution of factories in the place of the domestic labour of autonomous workers, is the order of the day. Industrial development, therefore, means, for the time, the starting of mills and factories with large amounts of capital. Though, therefore, the individualistic and partnership forms of production largely prevail in the country, the joint-stock concerns are tending to multiply. But wherever it is possible, the small industries must be preserved and improved, and special effort will be needed if industrial evolution is to be properly directed into suitable channels. The following statistics[1] in this connection will be found instructive:—

Industrial Census:— 1912-13.

No. of Factories	7,113
No. of Persons employed—	

1 Statistical Abstract for British India, Vol. I.

(i) Direction, supervision and clerical.	
European	9,437
Indian	60,794
(ii) Workmen.	
Skilled	5,54,778
Unskilled	14,80,815
Total	21,05,824

Factories and other Large Industries.

1917–18.

	No. of Factories.	No. of Operatives.
(*a*) Owned by Government, Local Bodies and State Darbars	177	1,18,584
(*b*) Owned and worked by companies or individuals.—		
(1) Worked by mechanical power	3,933	10,47,290
(2) Not worked by mechanical power ...	758	72,364
	4,868	12,38,238

Factories coming under the Factories Act.

1917–18.

No. of Factories 3,241

Operatives employed.

Adult Males	8,57,221
,, Females	1,58,644
Male Children	49,882
Female ,, ...	10,454
Average Daily Number	10,76,201

Important Factories.

1917.

Cotton gins and presses	1,770
Rice mills	563
Cotton mills	277
Oil mills	135
Jute presses...	118
Saw mills	127
Railway workshops	65
Jute mills	74
Iron and brass foundries... ...	49
Flour mills	48

Cotton Mills.

	No.	Authorised capital (lakhs)	Persons employed (1,000).	Looms (1,000)	Spindles (1,000)
Average 1879–80 to 1883–84 ...	63	657 6	51	14 5	1,610·6
,, 1889-90 to 1893–94 .	127	1161 7	116·1	25·3	3,263·8
,, 1894–95 to 1898–99 ...	156	1419·5	150 0	36·6	4,046·1
,, 1904–05 to 1908–09 ...	218	1878·7	216 4	60·8	5,549·1
,, 1909–10 to 1913–14 ...	257	2243·3	243·8	88 1	6,406·4
1910–11 ...	254	2236·5	230·8	84.6	6,346·7
1913–14 ...	264	2245 7	260 8	96.7	6,620·6
1917–18 ...	269	2466·3	284·0	114·8	6,614·3

Production of yarn in mills in British India.

	Total Production (lbs.)	Exports (lbs.)
Average 1906-07 to 1910-11...	608,926,375	228,318,890
1911-12 ...	590,841,667	161,129,123
1913–14 ...	644,852,677	206,740,417
1917–18 ...	626,800,510	130,223,130

Production of Woven goods.

	(lbs.)
Average 1906-07 to 1910-11	194,131,234
1911-12	252,126,207
1913-14	256,406,002
1917-18	359,178,294

Jute Mills.

	No.	Authorised capital. lakhs of Rs. (1,000)	Persons Employed.	Looms 1,000	Spindles. 1,000
1909–10 to 1913–14	60	1200·	208·4	38·5	695·8
1914–15	70	1289·3	238·2	233·3	795·5
1917–18	76	1428·5	266	40·6	834

Exports of Jute Manufactures.

	Gunny bags number in millions	Gunny cloths million yards	Value in lakhs
1904–05 to 1908–09	257·8	698	14,42 7
1909–10 to 1913–14	339·1	970	20,24 8
1915–16	784·1	1,192·3	37,97·8
1917·18	758·4	1,196·8	42,84·3

Paper Mills.

1917.

No.	Estimated authorised capital	Value of output
10	52·5 lakhs.	188 lakhs.

Paper Produced in Indian Mills. Rs.			Imported Rs.
1910 = 81,52,000	...	...	... 1,10,06,000
1912 = 77,06,000	...	...	... 1,35,83,030
1913 = 80,37,000	...	...	... 1,59,00,000
1914 = 82,12,000	...	...	... 1,42,00,000
1916 = 1,24,85,000	...	...	... 2,28,00 000
1917 = 1,87,86,000	...	...	... 2,03,00,000

Woollen Mills.

Goods Produced. Rs.			Imported. Rs.
1910 = 47,20,000	..	...	... 2,92,97,000
1912 = 53,88,000	...	...	... 3,84,42,000
1913 = 61,66,000	...	...	... 3,84,12,000
1914 = 80,09,000	...	...	... 3,15,35,000
1916 = 1,66,59,000	...	...	... 1.64,54,000
1917 = 2,01,10,000	...	...	... 2,28.00,000

Production of Tea.

				lbs. (Millions.)
1895	...	...	...	143
1900	...	...	...	197
1905	...	...	...	222
1910	...	...	...	263
1915	...	...	...	372
1917	...	...	...	372
1918	...	...	...	381 (estimated.)

Production of Coal, Iron Ore and Petroleum

		Coal (Thousand tons.)	Iron (Thousand tons.)	Petroleum (Millions of gallons).
1895	...	3,540	47	13
1900	...	6,119	63	38
1905	...	8,418	103	145
1910	...	12,047	55	215
1916	...	17,104	390	287
1918	...	20,702	492	287

62. Caste :—The caste organization plays a very important part in the social life of the people. The social and the economic functions of caste are inextricably bound together so that the regulation of industry is as much its duty as the supervision of the conduct of members. But the economic aspect of caste has always tended to be distinguished from the purely social aspect, and the former came to be identified more and more with the gild. In the absence of the gild, however, the caste organization dominates the whole life of the trader and the artisan. The panchayat of each caste controls the dealings of members with one another in certain defined particulars and discusses and decides various social and domestic questions and inflicts punishments upon offenders. Rules of the caste with regard to personal conduct are made binding upon individual members, and penalties are laid down for breaches of regulations. The panchayats sometimes also seek to regulate the industrial methods pertaining to the occupations of the castes, and offences against the com-

munity tending to lower its corporate character are duly considered.[1]

So far as the organization of production is concerned, the members of a caste have rigidly to follow the lines laid down by the leaders of the community for their guidance. The caste was not, of course, a joint stock company and did not produce wealth in a corporate capacity or in its character as a community. Uuder it as under this system of craft gilds in Europe, the craftsmen were autonomous workers, with journeynun and apprentices. But it had rules and established customs with regard to the details of the trade its members pursued, in matters of the raw material, wages, prices, quality of manufactures etc. and they were quietly submitted to because their infringement meant excommunication. The organization of caste had its obvious serious drawbacks as well as its advantages.[2]

The same causes that wrought the disorganization and decay of the craft guilds in England are in operation in

1 " The Sunars of Hushangabad have a gild panchayat on the night before the Dashara, when they hold a feast, and are said to take an oath that none of them on pain of outcasting will disclose the amount of the alloy, which a fellow craftsman has mixed with the precious metals. The Koshtis of Chanda in 1907 proscribed a certain cloth and yarn seller of the city who had offended some of their number and resolved to outcaste any Koshti who dealt with him."—Census Report.

2 " There is, therefore, a plasticity as well as rigidity in caste. Its plasticity has enabled caste to adapt itself to widely separated stages of social progress, and to incorporate the various ethnical elements which make the Indian people. Its rigidity has given strength and permanence to the corporate body thus formed. Hinduism is internally loosely coherent but it has great power of resistance to external pressure. Each caste is to some extent a trade guild, a mutual assurance society and a religious sect. As a trade union it insists on the proper training of the youth of its craft, regulates the wages of its members, deals with trade delinquents, supplies courts of arbitration, and promotes good fellowship by social gatherings. The fabrics of mediæval India and the chief local industries of our own day, were developed under the supervision of caste or trade guilds of this sort. Such guilds may still be found in many parts of India but not always with the same complete development."—W. W. Hunter : Indian Empire.

India to-day, and a readjustment of economic and social forces is steadily but surely going on. But trade unions and other organizations have not yet taken the place of the old institutions, and things are in a flux. Manufacturers and merchants have their organizations designed to safeguard and promote their common interests, but artisans and workmen are disorganised and helpless where the hold of the caste has loosened, as it is loosening on every hand.

India appears to have had village panchayats as distinguished from caste panchayats and corresponding to the merchant guilds of medieval Europe. The function of these bodies consisted in deciding on all social, religious, economic and administrative questions affecting the village as a whole. Most of these organizations whose lineaments can be clearly seen in inscriptions of the middle ages found in southern India and whose share in public life was a remarkable featurs of the administration of the country, have now disappeared and we have survivals of only a few of them in certain parts of the country. But the vitality of the caste panchayats is greater; and less advanced a community the closer is the hold of that authority on its members. There is but a slight analogy between the Indian caste and the English craft gild.[1] In the former, social and religious functions predominate and in the latter it is the regulation of industry which characterises the organization.

63. Ancient Indian Gilds.—The craft and merchant gilds of India have a long history and traces of them have been discovered even in the Vedas which take us to a time two thousand years before the Christian era. From Budhistic literature[2] we find that various crafts were organised in gilds with their councils and executive officers, and as many as eighteen of these are mentioned. Hindu literature abounds in references to gilds, their constitution, rules and functions, and no doubt is left about the fact that they occupied an important place in the social economy and were in a flourishing condition. The head (shresh-

1 Sir Herbert Risley : The People of India, page 259.

2 Rhys Davids : Budhist India.

thi) of the gild (Shreni or Sangha or Gana) was a man of high social status and was held in great esteem by the king as well as by the people. In the time of the Budhist Jatakas, arts and crafts had already become hereditaiy. They had likewise become localized, and streets in towns, and in many cases, whole villages whre inhabited by one class of artisans.[1]

Kautilya's Arthashastra and the Dharmashastras of Manu, Gautama, Narada &c , show a further development of the gilds, those of merchants and artisans, and we find 'cultivators, traders, herdsmen, money lenders and artisans' authorised to lay down rules for their respective classes. The king is enjoined to give his decisions in cases of dispute, according to the rules of the gilds which are recognized. Manu[2] and other law-givers speak of the laws of castes, villages and gilds, thus showing that gild organizations were coming to be distinguished from castes and were even developing their own customs regarding the production and disposal of wealth. The gilds held property in their corporate capacity and also as trustees. Inscriptions found in the different parts of the country and belonging to early centuries of the Christian era leave no doubt about the position of artisans' and traders' gilds which served as bankers and trustees. The gilds had regular rules about apprentices, and caste does not appear to have been a rigid bar to the admission of pupils to different trades. The restrictive influence of caste became stronger with the lapse of time and that institution has continued its hold on Hindu society while the gilds have decayed and disappeared except in a few parts of the country.

64. Gilds and Castes :—The English craft gild was extremely exclusive and exercised a very rigorous control over membership, apprenticeship and the general practice of its particular craft. But it is not to be supposed that it

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1 R. C. Majumdar : Corporate Life in Ancient India , Hopkins : India, Old and New.

2 Manava Dharmashastra, VIII 41; Yadnavalkya, 1,361

had no religious and social side of its own,[1] and herein we trace a similarity between it and the Indian caste, though the English gild never made its occupation hereditary. That a person must be born in a caste to be entitled to be its member, is a peculiarity of the Indian caste. And even in India we see instances of absorption of castes and the creation of new ones or of subcastes.

The idea of the inherent superiority and inferioity of certain classes and of the inheritable character of the qualities and functions of these classes did not strike root in the European soil while in India the distinction of *Varnas* based upon qualities and actions alone, faded from the popular mind, and social divisions steadily multiplied as they became more and more rigid. Some castes do correspond to crafts, but in the case of several there is no such identity.[2] A caste is divided into a number of sub-castes clearly marked off from one another and the latter are distinguished by the peculiar economic functions which they perform. The economic cleavage here is as wide as the social. Artisans' gilds are numerous even at this date in Gujarat and Kathiawad and their unmber in a town ranges between 30 and 150. The Mahajan is a gild of bankers, traders, brokers &c while the Panch is a gild of artisans. Ahmedabad is to-day the centre of the gild system which extends into Rajputana. Elsewhere the

1 " The religious side of the gilds has not so far come into much prominence, but most of them had this side to their activities, and indeed with some, religious and social duties had formed the nucleus round which the other powers had gathered. Pageants and processions on certain saints days and formal attendance at worship, were part of most medieval associations and more common still were alms and charities and prayers and masses for the souls of dead brethren."—Townsend Warner : Landmarks in English Industrial History.

2 " The same caste may embrace several crafts, and as a rule, Mahammadans and Hindus engage in the same trade, each working for his own community. Sometimes they take recognizable sections of a craft and work separately. At other times they may be found in the same workshop ; and Hindus now often employ Mahammadan craftsmen whereas formerly the Hindus were the labourers and the Mahammadans the employers."—Imperial Gazetteer of India, Vol. III.

gilds disappeared long ago and even in Gujarat, their power is fast declining.[1]

The economic functions of castes have steadily receded into the background and it will be more and more open to their members to take to any trade they may find suitable. To day, a trade is found followed by people of different castes; and as regards non-Hindus, these social restrictions are non-existent among them, though religious and social prejudices impose certain limitations even in their case. Thus weavers are found among different castes and creeds, and in the Punjab, " in the eastern districts the Julahas constitute a real caste, but further westwards distinctions of race tend to disappear. Khokhars and Pathans Mirasis and Rajputs, and even needy Sayyads are found flying the weaver's shuttle for their livelihood in Jhang and Multan."[2]

Changing popular tastes, competition of foreign and indigenous machine-made goods, the increasing use of machinery and improved tools and the growth of individual liberty, have disorganised and will tend more and more to dissolve this industrial organization based upon the principle of caste. Before the advent of machinery and the spread of general and technical education as also the changes which rapidly took place as a consequence, in social usages and ideas, had obliterated the distinctions among the different classes of work and of workers, even in a country like England, as Mill observes. the barriers which separated one industry from another, were almost insuperable [3]

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1 For an interesting account of Indian gilds see Hopkins India, Old and New, 176.

2 Latifi: 'The Industrial Punjab'

3 "So complete, indeed, has hitherto been the separation, so strongly marked the line of demarcation, between the different grades of labourers, as to be almost equivalent to an hereditary distinction of caste; each employment being chiefly recruited from the children of those already employed in it or in employments of the same rank with it in social estimation, or from the children of persons who, if originally of a lower rank, have succeeded in raising themselves by their exertions '—Principles.

A similar process is clearly visible in India and enterprising men are rising to a higher status in economic oraganization independently of all social distinctions. Not only will Brahmins become mechanics, foremen, carpenters, tailors, contractors and engineers, but people of the socially lower classes also are being enabled to organize industries and command labour and thus to override the limitations set by caste. The movement is, therefore, perpendicular and likewise horizontal.

The advantages incidental to caste and gild organization are no longer serviceable to persons who aspire to rise in the social scale or to improve their economic condition The regulations and restrictions of caste are, therefore, found to be impediments rather than helps and individualistic tendencies noticeable among members of castes will prove destructive to those organizations. There are some thinkers in the West who believe that the gild idea deserves to be revived at this moment when the conflict between employers and operavtives has become very bitter on account of the control of industry having passed out of the hands of the expert workers into those of a narrow class of capitalists. They wish to revert to the spirit of the old gild, to times when man was ' mainly a craftsman and a democrat who had not wasted many hours on polititians and governors."[1]

65. Farming.—The organization of production in India has to be studied in different aspects which simultaneously present themselves to the view and range between a poor peasant's simple cultivation of a patch of land or the occasional land tillage, combined with other primitive occupations, of the backward races that inhabit the jungles, on the one side, and on the other, the manufacture of the finest articles in a factory of the most modern type by up-to-date methods and on an enormous scale. Except in the case of a few big land holdings, agriculture is far for the most part in the hands of small

1 G. R. Sterling Taylor The Guild State.

men. Farming on a large scale is quite exceptional in India. "In the rayatwari areas of Madras, for example, the average size of a holding does not exceed eight cultivated acres, while in the more thickly populated areas of Bihar, under the Zamindari system, the tenant holding averages less than half an acre."

A few intelligent and enterprising landlords are indeed found organizing their farming along systematic and scientific lines ; and sugarcane cultivation and fruit gardening, for instance, have proved encouragingly remunerative. Agricultural associations and co-operative societies may be expected to do some thing for the small cultivator by teaching and helping him in other ways to make his farming more profitable. He may borrow capital or purchase seed from his society and carry out improvements suggested to him by demonstrations given by the officers of the Agricultural Department.

Farming has to be taken up as a business and must be an economic proposition, the farmer organizing production in an intelligent and efficient manner. The productivity of the of the soil in India has to be increased by liberal application of capital and labour, and the cultivator must have the enterprise and the necessary means at his disposal to do this. The peasant proprietor or the tenant in India is as a rule, too poor and ignorant[1] to carry on his

1 ' In England the farmer is generally a person of some education and substance, farming large acres and capable of applying the results of his reading. The great mass of the agriculturists of India are small holders and the standard of education among them is, as a rule, low There are no agricultural papers to bring to their notice new manures or new machinery, , in most cases they would not have the money to purchase them, nor the science and knowledge to make much use of them when they had got them. I am well aware that in every province in India there are not a few highly educated and intelligent landlords and farmers ; but as a rule the cultivator of India is a small holder. This, obviously, complicates the problem. Finally, the idea of seedsmen as we know them in England, with our Suttons and Cart rs, is practically unknown. Till a few years ago, the village Bania added this to his various lines of activity.' —Mr. Mackenna : Paper read before Royal Society of Arts.

industry with sufficient profit to himself and to the country. Spread of education and improvement of credit may be expected to change these conditions and to lead to a better organization of agriculture and with it of dairy farming, cattle breeding and other allied industries.

66. Subdivision of Land.—But the greatest difficulty in the way of improvement is that the bulk of the agricultural holdings are not economic holdings. Mr. Keatinge defines an economic holding as one "which allows a man a chance of producing sufficient to support himself and his family in reasonable comfort after paying his necessary expenses. In the Deccan an ideal economic holding would consist of (say) forty or fifty acres of fair land in one block with at least one good irrigation well and a house situated on the holding. The desirable area would vary greatly in different parts according to circumstances."[1]

The average holding is very small, often split up into several plots situated at a distance from one another, and consequently it is absolutely uneconomic. The cultivator with such a holding cannot be expected to develop or improve his property and must live in depressing circumstances. He must eke out a living by taking to other occupations and working as a wage-earner either in his village or elsewhere.[2] Agriculture proves wasteful

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1 Rural Economy in the Bombay Deccan.

2 In moving a resolution in the Bombay Legislative Council, recommending the adoption of measures to prevent the extreme subdivision of land which is going on apace, the Hon'ble Dewan Bahadur Godbole described several cases of lands where partition had become absurdly minute. He said :—"In the Kanara district, there is a compact piece of land measuring 52 acres and I gunta in extent. This land is divided at present into 40 separate survey numbers 14 of which are less than one acre in extent. The survey numbers are subdivided further and the whole of the 52 acres and I gunta are at present held by 139 occupants. Three of these holdings are of 1 gunta each. I might tell the Council that the Council chamber in which we have met to day measures $1\frac{1}{2}$ guntas. This will give the Hon'ble Members some idea of what a holding of one gunta means."

under these circumstances and the community is not able to make the most of its natural advantages. Growth of population and continued partitions of landed property have resulted in minute subdivision and dispersion of lands and the effects of this tendency upon the community are cumulative.[1] Lands are not only split into small fragments, but these latter, though belonging to the same persons, are scattered in distant places so that their cultivation becomes difficult and is indifferently done.

Laws have been made in certain countries rendering possible the creation of impartible holdings of a particular size.[2] Increase of propulation and growing dependence on the agricultural industry are as much responsible for the evil of the extreme fragmentation of land as Hindu and Mahomedan laws of inheritance and the strong attachment of the people to their ancestral holdings. Spread of education, change of public feeling and a suitable modification of the existing laws of inheritance, are pointed out as re-

1 "It is evident from this that in the last sixty or seventy years the character of the land holdings has altogether changed. In the pre-British days and in the early days of British rule, the holdings were usually of a fair size, most frequently more than nine or ten acres while individual holdings of less than two acres were hardly known. Now, the number of holdings is more than doubled and eighty-one per cent of these holdings are under ten acres in size, while no less than sixty per cent. are less than five acres."—Land and Labour in a Deccan Village, page 46.

2 Read in this connection the interesting report of a committee appointed by the Government of H. H. the Maharaja of Baroda to make proposals on the consolidation of small and scattered holdings in the state. The report states that (1) land has already been minutely subdivided, (2) preventive measures must be taken and the present limit of subdivisions must be raised, (3) the growing subdivisions are mainly due to the operation of Hindu and other laws of inheritance, and (4) subdivisions have made agriculture uneconomic and wasteful by involving waste of labour and cattle power, and of land in hedges and boundary marks and by making it impossible to dig wells and use labour-saving implements. The committee recommends that the minimum dimensions of an economic holding may be fixed and also that a permissive Act may be passed to effect consolidation of existing small and scattered holdings.

medies.[1] But they are not likely to be efficacious unless new industrial avenues are opened to the people and they find congenial work in other fields. For an enterprising man to take to farming, a sufficiently large plot of land provided with water facilities and a decent amount of capital; will be needed. And fortified with these, there is no reason why a few of our more enterprising cultivators and even some of our agricultural graduates should not become successful farmers.

67. Urban and Rural Industries:—Small industries will be similary remunerative if the workers have the necessary training, can command capital and can keep themselves in touch with the latest improvements in processes. Indigenous industries, wherever they exist, must be improved by the promotion of the efficiency of those engaged in them. In the competition of cheap foreign manufactures, local industries are bound to go under. Cloth, hardware, cutlery, paper, pottery, glass, domestic utensils and a host of other articles turned out in modern factories must displace corresponding goods of indigenous make. But properly organized and encouraged, the indigenous home industries may hold their own against imported articles. There are scattered all over the country skilled workers who can turn out articles of any pattern. Locks, knives, nutcrackers, silver ware, brass and copper utensils, toys and leather goods, all of a high quality and finish, are made, and the Swadeshi movement has given some encouragement to these industries.

What is required in their case is not only patriotic patronage on the part of the people but better organization of production and sale. Though the railways have shorten-

1 The exhausting nature of agriculture, the rapid growth of popuation and the minute subdivision of land were three important facts which arrested the attention of Mr. Caird, a member of the Famine Commission of 1880. Talking with the Co-Regent of Hyderabad on the question of the evil of the subdivision of land, he elicited the following significant remark ;—"It is the custom of the people to subdivide among the sons of the family, and who can interfere with that?"—"India, the Land and the People."

ed distances, and brought even our villages in contact with foreign factories, indigenous industries still possess considerable advantage over them by reason of proximity of markets and of cheapness. As regards enterprises on a larger scale, young men who receive their training abroad, find it difficult to enlist the support of capitalists and cannot straight off start new industries. They do not also possess business capacity though they may have expert knowledge (which may not suit Indian conditions). Capitalists care more for fat dividends and high rates of interest and are unwilling to risk their money on new ventures. But this happy association of enterprise and training with capital, will be more in evidence as years pass by Care is now being taken to see that the students who go out to foreign countries to learn, should have received some acquaintance with industries in this country and should be in a position to profit by training obtained in foreign institutions and factories.

In the meanwhile, experienced business men in command of capital, are found to be able to float new industrial concerns. The experience gained in the existing factories will prove useful in the work of starting new ones. But this organization must be preceded by experimentation and research work. The possibilities of the raw materials to be found in abundance in the country, must first be proved, and a new industrial scheme must be an undisputed business proposition. The State will have much to do to create congenial surroundings and give direct and indirect assistance to industrial development. The appointment of experts is suggested for this purpose to Government, and Directors of Industries have been already so appointed in some provinces. The danger to be guarded against lies in speculation and hasty company promotion

which may bring on a crisis at any time and cause a set-back to industrial development.

68. The Future.—We cannot close this chapter without adverting to the question which is raised by the oft-repeated statement that India is and must long continue to be a country in which agriculture will be the predominant industry. If this statement simply means that there is infinite scope for the improvement of the agricultural industry in this country and it will be many years before it will have established in it manufactures of the magnitude of those of Japan or England, for instance, there is nothing in the observation to which exception may be reasonably taken. But what is resented as unwarranted, is the insinuation that India must be satisfied with agriculture because her sons are incapable of starting and managing large manufactures and the idea that in the geographical division of labour, agriculture has been assigned to her as her peculiar province.

Agriculture is a noble industry and profitable one too, and every nation is trying to improve and encourage it. The productivity of the soil in this country is very low and may be appreciably increased. Improved farming will materially add to the national income and the efforts that are being made by Government in the matter of demonstrating the utility of improved methods and implements and of supplying seed of pure and superior quality for the cultivation of cotton, wheat, sugar-cane and other crops, are efforts in the right direction. But to reduce India to the condition of a nation of cultivators, would be to retard the progress of the people in all directions. The existence of diverse industries, particularly those that call for the exercise of high intellectual and

moral qualities, is essential for the healthy development of the people.

It is a mistake to suppose that India has ever been an agricultural country.[1] It had, in the past, a splendid combination of agriculture and manufactures, and its wealth was the result of the profitable exchange between the country and the town. And the example of Japan is there to show how manufactures can be developed in a backward Asiatic country if judicious measures are taken to foster the growth of industries. Germany also evolved her industrial prosperity out of conditions which were hardly more favourable than those prevailing in India.

What is, therefore, wanted is the industrial resurrection of India. The ruralization of the country has gone to such a length, that the industrial achievements of the people, their talent, and their natural and acquired aptitude have been forgotton. The industrial and commercial glory of India appears to have passed into a myth, and an account of the old indigenous industries and arts will read like a fairy tale. The history of Indian shipping and ship-building, to take one example, would show what great

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1 "I do not agree that India is an agricultural country; India is as much a manufacturing country as an agricultural; and he who would seek to reduce her to the position of an agricultural country seeks to lower her in the scale of civilization. I do not suppose that India is to become the agricultural farm of England; she is a manufacturing country, her manufactures of various description have existed for ages, and have never been able to be competed with by any nation whenever fair play has been given to them. I speak not now of her Dacca muslins and her Cashmeer shawls, but of various articles which she has manufactured in a manner superior to any part of the world. To reduce her now to an agricultural country would be an injustice to India."—Mr. Montgomery Martin: Quoted in "India in the Victorian Age" by Mr. R. C. Dutt.

progress[1] had been made by the Indian people in industrial development.

The inherent industrial capacity of the Indian people is undoubted and the latent possibilities of the country are acknowledged on all hands. With systematic organization and patient and zealous encouragement, a variety of industries will rise in India, making her people progressive and prosperous.

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1 "In ancient times the Indians excelled in the art of constructing vessels, and the present Hindus can in this respect still offer models to Europe—so much so that the English, attentive to every thing which relates to naval architecture, have borrowed from the Hindus many improvements which they have adapted with success to their own shipping......The Indian vessels unite elegance and utility, and are models of patience and fine workmanship."—A French writer quoted by Radhakumud Mukerjee in his *History of Indian Shipping and Maritime Activity.*

The question of maintaining an Indian naval force for the defence of this country in particular and of the Empire in general, now looms large on the horizon. Here is an opportunity before the State to revive the shipping industry in this country. The revival will be an economic as well as a political boon.

CHAPTER VII.

Production and Population.

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69. Increase of Population.—We have already laid stress upon the peculiarly urgent importance of increasing the production of wealth of every kind in India, and pointed out that this can be ensured by an increased efficiency of agents of the production. An increase in population is itself taken as an indication of the progress and prosperity of a community because the growth is possible only under favourable conditions. Wealth is not an end but a means to an end. It is produced not for its own sake but in order to be consumed.[1] The connection between population and wealth-creation is intimate and the two racact upon each other. Apart from the defence of the community, growth of population is necessary for augmenting the output of wealth; and the latter, in its turn,

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1 "The production of wealth is but a means to the sustenance of man; to the satisfaction of his wants; and to the development of his activities, physical, mental and moral. But man himself is the chief means of the production of that wealth of which he is the ultimate aim."—Prof. Marshall: Principles of Economics.

promotes the increase of population by improving the conditions in which the community lives.[1]

How important is the problem of the growth of population from the point of view of defence, has been demonstrated by the experience of the world-war. The size of the population in the belligerent nations has counted in it as a factor of primary importance, and for several years before the outbreak of the struggle, the stationary condition of the population in France had been a cause of anxiety and alarm. Colonies, where land is abundant and the soil fertile, invite settlers from the old world and immigration tends to augment wealth. An increase in labour power conduces to the efficiency of production and a growth of population will augment the national income. British colonies like Fiji and Guiana are trying to attract Indian labour by offering tempting terms though the self-governing Dominions are anxious to maintain themselves White. A natural increase of population is welcomed also because it represents an excess of births over deaths and bespeaks peace, health and prosperity in the community.

70. Varying Conditions.—It must be admitted that under certain conditions an increasing population not only denotes growing welfare but assists in the efficiency of the production of wealth and, therefore, the volume of the national dividend. But only under certain conditions. Because a growing population will only bring on or aggravate poverty if the additional numbers are not able to produce a surplus of wealth. The population will

1 "Defence is still of more importance than opulence, and an increase in numbers means in general an increase in military power—actual or potential. Equally obvious is the increase in man's power over nature. Even simple combination of labour has its advantages, as has been admirably shown by Mr. Gomme. Still greater are the advantages of complex co-operation, as we see in our own days in the rapid development of new countries in which the progress of centuries is forced into a few decades. The growth of population is necessary to the improvement of the means of communication and of trade; trade brings capital and capital and land both give for a time an increasing return, and thus the increase of population means an increase of wealth per unit."—Prof. Nicholson: Principles of Political Economy.

press on the soil, setting at work the law of diminishing returns, the food supply will prove inadequate and the condition of the community will become deplorable. It is, therefore, necessary that increasing population should make more than a proportionate contribution to the national dividend if the material and the moral condition of the community is to improve.[1]

All countries are not, however, in the happy condition in which an increasing population leads to increasing welfare. Increase of population in Germany has been very large. But we are told that the effects of growing numbers there, have not been detrimental. On the contray, it is stated that the pressure of increasing numbers had a stimulating effect upon the German character, goading the young men on to work with greater vigour and efficiency. Instead of being contented with their share of paternal wealth as would be the case in countries like France where population is almost stationary, German youths struggle hard and make their way in the world.[2] But even granting that the above conclusion applies to the majority of communities in the world, there is another aspect of the problem which demands consideration. There will always be going on a race between population and subsistence. We take growth of population as a natural phenomenon over which human beings have no control and then try to promote the increase of subsistence in order that it may overtake population and surpass it if possible. But if population did not grow or grow at the

1 " An increase of population accompanied by an equal inerease in the material sources of enjoyment and aids to production is likely to lead to a more than proportionate increase in the aggregate income of enjoyment of all kinds."—Marshall : Economics of Industry.

2 Howard : Recent Industrial Progress of Germany.

rate at which it is growing, will not the individual share of the national dividend be larger?[1]

Natural animal instincts are, however, given a free play, as a rule, and if there is any interference with freedom in this respect, it is exercised only to restrain immorality and often times to stimulate the growth of population in the interests of the community. And, therefore, greater importance has been attached to the side of production, in as much as the economic ideal must be to secure as large an income to the individual as possible. Malthus, therefore, sounded a note of alarm and pointed to a remedy more than a hundred years ago.

71. Malthusian Doctrine:—During the last few years production has made such giant strides as could not have been anticipated by Malthus, and recent developments appear to have falsified his gloomy forebodings that the production of food would not be able to keep pace with the increase of population. He had maintained that unless people voluntarily kept down the growth of population by moral restraint,[2] positive checks like disease would come into operation, making the lot of mankind miserable. And we are told that "everywhere we see wealth increasing at a greater rate than population—in new countries like the United States as well as in old countries like France. So that our first concern is rather in the opposite direction."[3] This is true enough, and the

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1 "When growth of population is accompanied by various occurrences that operate favourably upon production, and the average *per capita* income then increases, the growth of population will have exercised its harmful effects all the same; there would have been a far greater increase of the average income had there been no increase of population." Pierson: Principles of Economics.

2 By moral restraint he meant not the limiting of the number of children in marriage but celibacy, postponement of marriage and abstention from all sexual relationship. See Gide and Rist: A History of Economic Doctrines.

3 Charles Gide: Political Economy.

birth-rate among the higher and well-to-do classes is lower than among the poor people.[1]

In western countries, at the present moment, it is the preventive check urged by Malthus and particularly by his followers, combined with larger production of wealth, which has brought about this result which is pointed out as a refutation of his famous doctrine. Overpopulation is a relative term. It means excessive population in relation to the food and other necessaries of life which a community commands. Even a small community may be over-populated if its means of subsistence are limited and are incapable of expansion while large numbers will not feel the weight of the demand for food if their productivity keeps in advance of the increase in population. The deliberate exercise of preventive checks accompanied by a growing command over wealth and improved sanitation and health, has contributed to lower birte-rates and death-rates.

Admitting, therefore, that the doctrine of overpopulation has lost its terrors for modern society on account of its enormously augmented power of production, and that the strees has been shifted from food to wealth and efficiency, and still further that 'since man is the chief labour force, large numbers, indeed other things being equal, mean greater national strength and power' it must not be forgotten that, as indicated above, other things may not be equal and growing numbers may not mean increasing national wealth.[2]

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1 "There is no question that this general situation—marriage rates virtually stationary and yet declining birth-rates—is due to deliberate abstention from propagation. Married couples have fewer children than before by deliberate intent."—Taussig : Principles of Economics

These couples want to have all the pleasures of married life but not its responsibilities and they thus follow, consciously or unconsciouly the teachings of Neo-Malthusianism which are not, however, the same as the precepts of Malthus.

2 "The reverse may not be true if other things are not equal. A small nation with greater productive efficiency, like England, will outrank a more populous country like India. Smaller numbers with fairly equable distribution of wealth are preferable to a dense population living in the extremes of misery and opulence. Mere numbers are, therefore, not the vital point."—Seligman : Principles of Economics.

It must also be borne in mind that 'a rate of growth sufficient to enable it to *keep pace with* population is not all that we require of production, otherwise the average income will never rise.' We may repeat that subsistence is not always to strive to overtake expanding population but it must be enough to afford an ever-increasing share of wealth to the population as we advance. A stationary population need not causes alarm[1] unles we are to despair of the future of civilization and must have large numbers of human beings in readiness to be thrown into the haulocast of war with wicked neighbours.

72. Application to Indian Conditions.—The principles of population briefly discussed above, have got to be applied to the social and economic conditions of India with a view to an examination of the tendencies in this country. The teeming population of India is spoken of with a sense of pride and satisfaction, but it may as well be an object of anxiety to a close student and ardent reformer. Quality must matter as much as quantity in the case of the population of a country; otherwise a mere increase in numbers is a veritable danger. In India "the total increase in recorded population between 1901 and 1911 was 2,07,95,000 or 7·1 per cent. as compared with 70,46,000 or 2·5 per cent. and 3,34,18,000 or 13·2 per cent. in the two preceding inter-censal periods."

Even making allowance for the increase which was due to the inclusion of new areas within the scope of the census operations, viz. 17,54,003, the growth of the population between 1901 and 1911, was considerable. And this increase has taken place in spite of the loss of life caused by famine, plague, malaria and other calamities. "In the country taken as a whole, there are on the average 175 persons to the square mile or much the same as Europe

1 'For mankind as a whole, declining birth-rates and lessening pressure on population mean progress, and not deterioration. The prevalence of habits of prudence among all strata means a gain in human happiness. Possibly the time will come when this sort of prudence will be carried so far that the population in the advanced communities will no longer increase at all.'—Pierson : Principles of Economics.

outside Russia. In British territory the number to the square mile is 223 and in the Native States 100; the former figure exceeds by 34 the density ratio in France and the latter is identical with that in Spain."

Divergent views are entertained regarding the relation between population and prosperity in India and elsewhere. According to some, increasing numbers on the European continent, were a patent cause of the recent upheaval which has been witnessed there. Growing population in Germany may also have produced more than a proportionate quantity of wealth. In India, surely, pressure on subsistence has steadily increased, and the poverty of the people and much of the prevalent unrest are due to that cause.[1]

The density of the population varies in the different parts of the country and is dependent upon the climate, quality of the soil, rainfalland other conditions. The following figures are instructive—

	Density. Per sqr. mile.	Rainfall. Inches.	Cultivated area. Percentage of total area.	Cultivable area. Percentage.
Madras	291	43	38	25
Bombay	145	46	88	25
Bengal	551	70	50	20
United Provinces	427	42	53	19
Central "	122	48	39	26
Burma	53	95	13	29
Punjab	117	31	33	24
Bihar and Orissa	344	53	52	21

The above statistics deserve careful attention. The differences in the degree of density between the Provinces, Bengal and Bombay, for instance, can be accounted for by the natural peculiarities which distinguish them. Large plains with fertile soil and irrigational facilities are conducive to a rapid growth of population while hills and wastes have a restraining effect. There can be no doubt

1 'Over population lies at the root of Indian poverty.'—William Archer: India and the Future. Mr. Archer's discussion of this problem is interesting though many of his views in this connection are not acceptable.

that density of population such as we have in Bengal, the United Provinces and in Madras, militates against material well-being and makes for poverty. Agriculture, the predominant industry of India, cannot support dense populations, especially where it is in a backward state and it is no wonder if the populations migrate to other Provinces and live in a wretched state. It is interesting to compare the position in India with that in European countries.[1] The density is high in a few business centres there but the average is lower than we have in this country.

73. Is there great Pressure?—The growing pressure of the Indian population on land is admittedly a serious problem, and it has been adverted to above.[2] If agriculture alone is unable to support more than 250 persons to the square mile in Europe it is difficult to understand how in a country like India weere agriculture is the main industry of the people, a larger number can be sup-

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1 "The predominant density factors in India are by no means those which count for most in Western countries, where the variations in the population depend mainly on the progress made in commercial and industrial development. In England, next to London and its environs, we find the most teeming population in Lancashire with its cotton mills, and Durham with its collieries. The density in these two counties is more than five times that in pastoral and agricultural counties such as Oxfordshire, Lincolnshire, Norfolk and Devonshire. In the latter the number of persons to the square mile nowhere exceeds 200, and in some it is much less; and it would seem that Trunnier's dictum regarding Germany to the effect that agriculture alone is unable to support more than 250 persons to the square mile is equally true of England and in fact of all parts of Europe. The conditions are quite different in India where two-thirds of the population is directly dependent on agriculture, as compared with less than 7 per cent. in England. In large areas, such as the natural divisions which here form the basis of the discussion, manufactures and trade affect the density to a comparatively small extent; and even the number of individual districts whose density is greatly affected by the existence of trading and industrial centres is still comparatively small. Moreover, while in Europe, as we have seen, agriculture is unable to support more than 250 persons to the square mile, in India there are some purely agricultural tracts where it already supports three and even four times that number and others where it cannot support a tenth of it."—Census Report.

2 See above pages 53–55.

ported without great hardship. But we are told that 'a fifth of the total population of the country is congregated on less than a twentieth of the area, where there are more than 600 persons to the square mile ; a quarter more on a twelfth of the area carrying from 400 to 600 per square mile and nearly a fifth on an eighth of the area with density between 200 to 400 '; and it is pointed out that 'nearly two-thirds of the total population of India occupy only a quarter of the whole area, while the remaining one third is scattered over three quarters of the area which is still very sparsely inhabited and nowhere contains as many as 200 persons to the square mile.'

This and the other arguments which are advanced[1] to lend support to the view that in India population does not and need not press on the means of subsistence, have been carefully examined by Mr. Wattal in his most interesting brochure[2] and shown to be erronius and misleading. Except perhaps in the Central Provinces and Berar, no further agricultural development seems to be possible, and certain areas are still sparsely populated because they are poorer, rocky and inhospitable. If 500 or 600 persons are packed in an area of a square mile in some provinces it is because they are resourceless and their standard of living has become hopelessly low, and not because land can really support such a number. . Thus with regard to the Konkan districts of the Bombay Presidency, the last census report remarks that in proportion to its cultivable area, the Konkan supports a larger population than any other division. The soil is not especially fertile there. "There is

1 Hunter observes that land is plentiful in the Native States and migration of the population from congested areas to those parts is required. He remarks, however :—" In some parts of India, this change in the relation of the people to the land has taken place before our own eyes Thus in Bengal, there was in the last century more cultivable land than there were husbandmen to till it. A hundred years of British rule has reversed the ratio ; and there are now in some districts more people than there is land for them to till. This change has produced a silent revolution in the rural economy of the Province." See W. W Hunter's British Empire, page 85.

2 The Population Problem in India.

a thriving fishery industry, and natives of Ratnagiri and Kolaba are employed as police sepoys, choukidars and labourers in Bombay and lascars on ocean steamers and they remit a large portion of their earnings for the support of their families at home." It is in this way that the population of the Konkan with 227 persons per square mile is supported, and it does not argue any remunerative character of agriculture there. Several other tracts may be found to disclose a similar phenomenon, and one would be hardly warranted in indulging in optimism with respect to the productive possibilities of a majority of the provinces.

74. Food Supply.—Mr. K. L. Datta's investigation into the causes of high prices, revealed the fact that during the period under inquiry, the population of the country was growing faster than the food supply. He maintained:— "Considering the growth of the population and the increase in the external demand, the supply has been short during the greater part of the period embraced in the enquiry. The demand for both internal consumption and exports having increased at a quicker rate than the production of food grains, it is only natural that the general level of prices of food grains, over a series of years, would rise although in a particularly favourable year it might have fallen to some extent. The food supply in India compared with the demand, both internal and external, reached its lowest level in the quinquennium 1905-09, and this shortage of supply has doubtless contributed, in no small measure, to the unusual rise in prices during that quinquennium." [1]

A comparison of the growth of population and of the production of food grains, is presented in the following

1 Report on High Prices.

table, in which index numbers representing the increase, are given :—

	Average of the quinquennium 1890-91 to 1894-95.	Average of the quinquennium 1895-96 to 1899-1900.	Average of the quinquennium 1900-01 to 1904-05.	Average of the quinquennium 1905-06 to 1909-10.	1910-11	1911-12
Population ...	100	101·6	103·7	105·7	107·8	108·4
Total area under cultivation ...	100	98	103	105	108	105
Area under food-grains ...	100	96	101	102	106	102
Production of food grains ...	100	98	105	99	113	109

In their Resolution reviewing Mr. Datta's report, the Government of India stated that the statistics on which reliance had been placed and had to be placed, suffered from the fault of inaccuracy and that inferences drawn from such data must be taken with an amount of reservation. They, therefore, presented their own figures which, in their opinion, were more reliable, and concluded that there was "an almost precise parallelism[1] between growth of population and extent of cultivation". and that "the only interpretation which the figures can bear is that the correspondence between the two has been substantially maintained." Government also pointed out the further consideration that extension of irrigation must have resulted in an improvement of the outturn and that the development of communications must have had the

1 Lord Curzon also had pointed to a similar parallelism in 1901 in referring to the growth of food supply during the preceding twenty years, so that taking the most favourable view of the situation we can only console ourselves with the conclusion that we are not going back but have been marking time for about thirtyfive years.

effect of enhancing the "efficiency" of the aggregate of food production.

Even admitting the view here presented as correct, we cannot feel that the situation is satisfactory, because it amounts to this that the increase in food supply is just able to overtake and keep pace with the growth of population. But it is argued that "the real problem as regards a country so situated is obviously to determine whether the purchasing power of the people generally has increased" and that the high prices of Indian exports in foreign markets have enabled the Indian cultivators to purchase larger quantities of the necessaries of life from abroad, which is tantamount to a larger production of wealth in this country. And Mr. Datta observes that "India has now to part with much less of her produce to meet her foreign obligations for the simple reason that her produce has risen in value in European markets."

It must be borne in mind, however, that so far as food grains are concerned, with a shortage of supply and prices ruling high in the Indian markets, they have never been imported in appreciable quantities from abroad. Government argue that the internal supply did not require to be supplemented by imports. But the true explanation seems to be that the Indian population must have been underfed and that it did not possess purchasing power sufficient to enable it to supplement its stock of food grains by foreign imports.

Higher prices of food grains cannot adequately compensate the Indian producer for the growing pressure of the population on the soil, because the general level of prices has gone up in India and the share of the cultivator in whatever benefit may accrue, is, for obvious reasons, very slight. If more mouths have so be fed with the same or nearly the same quantity of food, the prices must rise, and this rise cannot be an object of congratulation or of consolation in view of the fact already noted that the closing of the other industrial avenues is driving many people on to land. To maintain a growing population, the soil must be made to yield more and the production of

food grains per acre must increase owing to intensive cultivation. Agricultural improvements effected during the last few years have not augmented the yield to an extent of which account may be taken.[1]

Apart from the commodities obtained in exchange for the raw materials exported from India, the productive power of the people cannot enable them to supply themselves with necessaries of life in a sufficient quantity. Industrial specialization, under normal conditions, has its advantages and there is nothing inherently undesirable in a country exchanging its special products for those which are produced by other countries under peculiarly favourable circumstances. But India's dependence on the sole industry of agriculture which is in a very backward condition, amounts to a national danger and has contributed to the decay and poverty of the people. Food is the first consideration in estimating the economic condition of a nation. And here in India, food supply is scanty and dear. Other things may have become cheaper and easily accessible to the masses; but this supply of comforts and 'luxuries' cannot compensate for the deficiency or dearness of food. And it is worthy of note that before the war 21 per cent. of the exports from the country consisted of food grains.

75. Population and Food.—We cannot here enter into a detailed calculation of the agricultural and non-agricultural income per head of the population in India. Widely varying estimates have been made and so complex and difficult is the calculation that one would not be entitled to pronounce any result as even substantially

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1 "We may at a conservative estimate, claim that the increase to the value of the agricultural products of India as a result of the labours of its Agricultural Departments, is already about $3\frac{1}{2}$ crores annually or over £ 2,300,000 This is the result of only ten years' work, and it must be remembered that every year will show a progressive increase." —Mr. Mackenna : Agriculture in India.

The annual value of the agricultural produce of British India is roughly estimated at 1,500 crores of rupees. Rs $3\frac{1}{2}$ crores means an addition of 7/30 per cent to the annual total agricultural production! And the annual growth of the population amounts to at least $\frac{1}{2}$ per cent.

correct. But so far as any rough estimate may be made, the calculation does not point to the conclusion that a satisfactory improvement has taken place in the economic condition of the people during the last few years. We do not know how Mr. Mackenna came to the conclusion that the 'annual value of the agricultural produce of British India is taken at over 1,500 crores of rupees' that is about Rs. 45 per head of the population. And on this calculation, the total per capita income would be about Rs. 70. Dadabhai Navroji calculated the income at Rs. 20 per head of the population. Lord Curzon's estimate of the average income [1] of Rs. 30 in 1901, is well-known, and Mr. Crammond now puts it at about 37 rupees. We are inclined to accept this last estimate rather than the other though, as we have observed above, even an approach to accuracy is difficult to attain in this matter.[2]

The Famine Commission of 1880 gave the following statistics :—

Population ...	...180,350,000
Food Crops Area	...166,250,000 (Acres)
Outturn ...	... 51,530,000 (Tons)
Consumption ...	... 47,165,000 („)
Surplus ...	... 5,165,000 („)

The Commission concluded :—"The agricultural and trade statistics of the past twenty years justify the conclusion that the increased production of all sorts has, upto the present time, more than kept pace with the requirements of an increasing population, and the known large area of land which may still be brouget under profitable cultivation and the possibilities of securing increased production by means of improved agriculture and extended irrigation afford reasonable grounds of confidence for the future."

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1 The gross yield of agricultural produce must not be confounded with income which is exclusive of the cost of production But the two do not seem to be always distinguished.

2 The recent depreciation of money must be taken into account in considering money incomes as a test of economic condition.

The Famine Commission of 1898 also gave corresponding figures :—

Population ...	... 215,627,181	
Food Crop Area	... 180,421,323	(Acres)
Outturn ...	... 68,069,972	(Tons)
Consumption ...	... 58,535,845	(„)
Surplus ...	... 9,564,127	(„)

This estimate of outturn was, however, excessive and another quoted by the Commission itself, put the production at only 56 million tons and, therefore, the surplus at 1,700,000 tons only. And the Commission proceeded to remark:—" Whatever may have been the normal annual surplus of food grains in 1880, the present surplus cannot be greater than that figure. But that a substantial surplus still exists in ordinary years there can, in our opinion, be no doubt."

76. Agricultural Production—Lord Curzon, when Viceroy, had occasion, in 1900 and 1901, to form an estimate of the average per capita income of the population. He said that in 1880, there were in British India, 194 million acres under cultivation and in 1901, 217 millions, an increase parallel to the growth of population. In 1880, the yield per acre of food crops was, for calculation, taken at 730 lbs and for 1898, 840 lbs., improved cultivation and extended irrigation accounting for this higher rate. Lord Curzon proceeded to say that on these calculations the average agricultural income in 1880 was Rs. 18 per head and twenty years later for the same area, the average was Rs. 20. Supposing that the non-agricultural income had increased at the same rate, the Viceroy concluded that the total per capita income was Rs. 30 in 1901 as against Rs. 27 in 1880.

Now, to examine the position developed in recent years we take figures for 1915-16, and the following table of comparative statistics may be presented :—

Year	Acres under cultivation. Millions.	Yield per Acre of food crops (lb.)	Population Millions	Agricultural Produce per head. (lb.)	(Rs.)	Total Income per head. Rs.
1880	194	730	181	782	18	27
1901	217	840	220	830	20	30
1915-16	221	900	250	796	30	45

The average per capita agricultural produce does not seem to have increased during the last few years though we have adopted a sufficiently liberal estimate for the yield in view of the extension of irrigated area and of other improvements.[1] Lord Curzon commuted the yield at the rate of 40 lbs. per rupee for 1901, and we have taken 26 lbs. as the rate for our calculation for 1915-16 to make allowance for rise in prices. Income expressed in terms of produce is, however, more reliable than that expressed in terms of money, and as the value of the money has declined, a comparison of money incomes at two different periods is likely to be misleading. The purchasing power of money has decidedy gone down and if we put the depreciation at 50 per cent., the real per capita produce or income in 1915-16, will not show any improvement over the state of things in 1901.

We arrive at the same conclusion in another way. From statistics published by Government[2] we see that on

1 The crop-cutting experiments made by the Agricultural Departments show that roughly every five acres of land, of which one is irrigated and the others non-irrigated, yield, on an average, 900 lbs. of produce.

We assume that the average quality of the additional acres brought under the plough was good, if not better. "But the chances are that the average quality was poorer, in which case the ratio between population and subsistence was altered for the worse"—See an interesting discussion of this subject in Mr. William Archer's "India and the Future."

2 See Agricultural Statistics of British India.

an average the value of crops grown upon irrigated land is Rs. 40 per acre and we have in British India about 47 million acres of irrigated land. The total value of the produce of this land must, therefore, be 188 crores of rupees. The value of the yield of non-irrigated land may be taken at half that of the irrigated and the 175 million acres will yield 350 crores more, the total thus being roughly 550 crores, which, divided by the population viz. 25 crores. gives Rs. 22 as the agricultural produce per head of the population.[1]

The same result is reached if we follow another line of calculatión. The total land revenue of British India is about Rs. 34 crores. The incidence of the tax is not uniform in all the provinces. In some parts of the country it is permanently fixed and is comparatively light, in others the incidence is liable to increase and is heavy. Making allowance for the variations and for alienations of land revenue, we may roughly take the total realizable amount of the tax at 60 crores and assume that it represents, on an average, one-twelfth of the gross produce—an assumption which is certainly very liberal.[2] Then the total value of land produce in British India would be Rs. 720 crores, and on this calculation the agricultural produce per head of the population will be about Rs. 29 or say Rs. 30. All these estimates, more or less rough guesses, point to the conclusion that the average agricultural production per head of population is exceedingly small and has not in-

1 Dr. Mann's investigations show that the income (profit) per acre in the village of his inquiry is Rs. 14-8. Calculations as to the agricultural yield would put the value of the produce per acre at Rs. 35. At the prices of fifteen years ago, this means Rs. 24.

Mr. J. C. Jack, I. C. S. (The Economic Life of a Bengal District—A Study) estimates the average income per head in the District of Faridpur at Rs. 52.

Dr. Gilbert Slater's estimate for the Madras Presidency is Rs. 73 per annum per head of the population, the value of the agricultural produce alone being taken at Rs. 230 crores for a total population of 41,405,404.

2 See Government of India's Resolution on Land Revenue Policy, 1902.

creased during the past few years. The increase of population between 1881 and 1911, amounted to about 5 crores. As Mr. Archer[1] has pointed out, this is just about the population of overpopulated Japan, and it means that 'assuming the India of 1881 to have been just able to support herself, with very little over, a development of her resources, equivalent to the whole resources of Japan, ought to have taken place in thiry years, if she was not to find herself, sensibly poorer, per head of the population.' India's progress, evidenced by her commercial and industrial statistics, can not certainly be taken to have amounted to these dimensions.

77. Famines:—Famines which have harrassed India so frequently are now unknown in other civilized countries though they were common there formerly.[2] A famine is a serious disturbance of the normal equilibrium between the supply of and demand for food. In advanced countries which have diverse industries, the deficiency can be made up, by larger imports as having the wherewithal to purchase food grains they have the whole world to draw upon. India has no diversity of industry; nor is she rich enough to buy large quantities of food from foreign countries, though in times of famine, exports of food grains stop and imports are stimulated.

It has been said that Indian famines are not so much famines of food as famines of the means with which to purchase food. This is to a large extent true. And now though the railways facilitate the transport of food grains from one part of the country where they are available, to that in which the crops have failed, and to that extent the horrors of the calamity are minimised, a famine must always be a serious crisis of under-production, unemploy-

1 India and the Future.

2 "To-day they are found only in the agricultural and mining industries. They are not as a rule very hurtful, except in countries industrially backward. A failure of the wheat crop may cause terrible famines in poor countries like India or Russia, and the insufficiency of certain raw materials may throw factories idle."—Gide: Political Economy.

ment and abnormal prices. Fortunately the whole country is rarely overtaken by famine at the same time and transport facilities so vastly improved of late, give a large measure of relief. Like commercial crises, scarcities and famines have a cyclic order in India. Not to go to earliar famines, we may refer to the failure of the monsoon in the United Provinces in 1907. Besides the other evils it entailed upon the people, the famine was resposible for a deficiency in food production equivalent to an amount of grain sufficient to feed the 48 million inhabitants of the province for five months. The total loss on food crops at both harvests, in terms of money, was put at Rs. 42 crores while the total loss on other crops was about Rs. 15 crores. This will show the magnitude of the evil which frequently overtakes one part or another of this country, and agricultural production has to be discounted to that extent.

Famines and scarcity are, no doubt, caused by a failure of the rains and sometimes by floods, and Government have developed an elaborate system of preventive, protective and relief measures. It has minimised the danger of the loss of human life and also of cattle life. But as the Famine Commission of 1880 pointed out, no protective measures can be adequate which did not include some attempt to diversify forms of employment. The problem of production and population cannot, therefore, be solved by these indirect methods, however useful they may be in themselves. A bold frontal attack must be levelled at the evii and the productive capacity of the people must be raised.

The growing demand for the raw materials of India and the higher prices which some of them may often command, should not be regarded as a gratifying indication of the growth of that capacity. That is, after all, a subordinate factor in the situation. Of course, larger exports of cotton, jute, oil seeds and hides at the higher prices will mean a larger supply, and therefore production, of wealth in the country. That is, however, an inadequate and precarious source of wealth-creation. If those raw materials are produced in larger quantities, if there is a steady im-

provement in their quality and if an increasing portion of them is manufactured in India with Indian labour and Indian capital and under Indian management, there will be more employment for workers of different grades and the addition to the national income will be enormous. And then only will it be possible to support the existing or a growing population with anything like decent means of subsistence.[1]

Famines brought on by the cruel freaks of nature cannot be avoided. But they are not absolutely irresistible. Relief afforded by improved means of transport is not enough. The productive capacity of land and the people must be increased and the economic backbone of the nation must be strengthened. The effects of famines are cumulative and the destruction of cattle and the loss of agricultural produce caused by them must be made good. Mr. Caird, a member of the Famine Commission of 1880, was an independent observer and he remarked forty years ago that the produce of the country on an average of years, is barely sufficient to maintain the present population and make a saving for occasional famines. He held the view that 'there are more people every year to feed from land which in many parts of India, is undergoing gradual deterioration.'[2] Add to this the facts that about one-fifth of our exports consist of food grains and that village stores of grain which were common in the past, are fast disappearing. Cultivators sell their surplus grain and make money for which they have tempting opportunities. Improved means of transport put more money into the pockets of the rayats, but there are no stores to draw upon in

1 "It may be more cheap to export raw goods and import manufactured goods. But if India is to win a stronger position as buyer and seller in the markets of the world, she must deepen the channels and regulate the action of her stream of produce......If the concentration of the agents of production on a great variety of undertakings is to prove advantageous, it must be on industries unaffected by drought. If the natural forces of international competition have not accomplished that aim, then deliberate and determined action alone can achieve it." Loveday: Indian Famines.

2 Memorandum on "Condition of India."

times of scarcity and famine. The food of the people has thus become dear and its supply precarious.

The Famine Commission of 1880 laid its finger correctly on the root cause of famines, viz 'the unfortunate circumstance that agriculture forms, almost the sole occupation of the mass of the population' and stated that 'no remedy for present evils can be complete which does not include the introduction of a diversity of occupations, through which the surplus population may be drawn from agricultural pursuits and led to find the means of subsistence in manufactures or some such employments.' The Commission made a number of very valuable recommendations in this direction calling upon Government to initiate a policy of direct encouragement to economic development. But practically no action was taken on them and after about forty years the same policy has been urged upon the State by the Industrial Commission.

78. The Outlook:—The above discussion drives us irresistibly to the conclusion that without a diversity of industries and an enormous increase in its productive power, India can hardly maintain even its present population, much less steadily growing numbers, An increasing population must thrust the country deeper into the mire of proverty and misery. A steady growth of population in a country may be an indication of progress and prosperity. It may also be as much a cause as an effect of national poverty and decadence. The present standard of living of the mass of people is very low and the situation will be intolerable to all those who are anxious to see a substantial rise in it. Whatever progress is being made, will be just sufficient to overtake the normal growth of population. And what is wanted is a rapid improvement in the economic condition of

the people, which can be secured only by increased efficiency.[1]

This gloomy picture would lead one to ask why the problem should not be attacked from the end of population also. A restriction of the growth of population will have the same effect as an increase in the quantity of subsistence as a larger share of national income will be available for distribution. The average increase of population, meaning thereby the excess of births over deaths, is by no means high in India. Whereas the natural increase per thousand of the population is 10 in the United Kingdom, it is only 8 in this country. This figure is low not because the birth-rate is small, as might be thought, but because both the birth-rate and the death-rate are comparatively high. A study of the statistics in this connection relating to the principal countries of the world discloses the fact that a high birth-rate is accompanied by a high death-rate, and the correspondence of the two rates means the correctness of the Malthusian doctrine. This state of things prevails in Rumania, Russia, Hungary, Saxony and Italy, and India stands in the same category with a birth-rate of 38 and a death-rate of 30 per thousand.[2]

1 "A real increase of wealth and prosperity comes to nations as it does to individuals not from any reckless piling up of coined rupees—nor again from any rise of prices—which, as shown before, is, in India almost invariably associated with crop-failures and famine conditions, but only from increase in industrial activity, energy, and efficiency on the one side, and on the other, from increased productive employment of capital With us, there is a deplorable deterioration in both respects." —Mr. Joshi's Writings and Speeches.

2 "Here are countries in which the population is pressing on subsistence. It is trying to increase faster than the means of support make possible, and the positive check is in operation. Not the positive check in its extreme form ; the birth-rate is not at its maximum ; some limitation of births there is. But more childern are born than can survive and become adults and more persons become adults than can survive to peaceful old age. The populations are ill fed, ill-clad, ill-housed, ill warmed, ill-cared for in sickness......In all these countries an indispensable condition for a permanent improvement in the condition of the mass of the population is a lowering of the birth rate—relaxation of the pressure on the means of support."—Taussig : Principles of Economics.

79, Remedies.—The conditions prevalent in the most backward countries are thus reproduced in India. If our birth-rate is high, our death-rate also is high. And a death-rate of 30 per thousand means waste of life, cares, anxieties, proverty, disease and distress. It will indeed be an ideal thing to be able to control disease and to conquer poverty. But in the face of the economic situation as it exists and as it promises to exist for years to come, will it not be desirable to check the birth-rate and thus relieve the pressure on subsistence? The economic situation and the prospects in India, then appear to call for the application of the Malthusian remedy. Late marriages of both men and women with a view to the controlling of the number of children, is that remedy. The necessity and whole-someness of marriage are admitted, and therefore Malthusians recommend the adoption of voluntary restraint in married life.

We have not the space to notice, and it is not necessary to do it, the objections which have been raised to the self-restraint suggested by Malthus or to discuss the position of the followers of what is called neo-Malthusianism. And it is safe to agree to the proposition that "it is advisable that people should not bring children into the world, till they can see their way to giving them at least as good an education, both physical and mental, as they themselves had; and that it is best to marry moderately early provided there is sufficient self-control to keep the family within the requisite bounds without transgressing moral laws."[1]

Humanitarian feelings and solicitude for t e welfare of children, if not of the whole nation, no less t. a personal ambition and a desire for independence a[illegible]idual happiness, would justify the adoption of M[illegible]anism. The pathetic picture of a fairly intelligent and [illegible]rhaps well-educated man, burdened with the anxie[illegible] large family, at a loss to know how to keep the [illegible] n the door and reduced to desperate shifts, to [illegible] y and slavishnsss, provokes the reflection that th[illegible] [illegible]es are

1 Marshall: Economics of Industry.

entirely self-imposed and could have been avoided. And this reflection does not fail to arise in the mind even of pious and conservative people when they see widowers of forty and fifty going in for their second and-third marriage and preparing for misery for themselves, their widows and their children.

To our mind, the most urgent and effective remedy, however, is for the State to inaugurate large schemes of national educatien and industrial development. The uplift of the people from ignorance, apathy and degradation, will alone bring about the desired improvement, and the application of the Malthuian remedy is only a counsel of perfection at the present stage of the economic evolution of the country. Control of births may be exercised to a very limited extent and will come at later stages of national progress. Indian poverty is not due to over-population, but is the result of under-production. Other nations have been increasing as fast as the Indian people, but their command over the means of subsistence has grown at a faster rate. This is the key to the solution of the Indian problem of population.

80. Indian Attitude.—Malthusianism, and Neo-Malthusianism in particular, is sure to shock the average Indian mind as it did the European mind years ago. Hindu law-givers looked, and rightly looked, upon marriage as a necessary social institution and a sacrament. Perpetuation of the race is a sacred duty, and every man has to get out of the debt he owes to his father by leaving a son after him. Late marriage is prescribed in the case of men, but the performance of the religious duties of the house-holder makes the married state absolutely essential. The injunctions recorded in the works of Hind law-givers, show that they laid down rules for a society which required for its existence and progress, a growing population of vigorous, healthy men ; and to shirk married life would have been regarded as shirking a sacred duty to the community. Prayers were and are offered to God for the grant of a healthy and vigorous progeny, and this attitude on marriage and the house-holder's life, finds a justification

in the attempts now being made in western countries to encourage marriages, to reward large families and to penalize bachelors.

The anxiety of the average Hindu to have a son and the shifts to which he is reduced in trying to secure one, have been objects of ridicule with certain authors.[1] There is no doubt about the fact that under the influence of religion and custom, institutions based upon sound principles are in practice abused and diverted from the original purpose. The arguments based on religious grounds urged by the opponents of the law of divorce in England are instructive in this connection. We have suggested above the true explanation of this Hindu passion to procure a son; and critical students of Hindu law and usage have not failed to appreciate it.[2] We are not, however, prepared to lay the whole blame of Indian poverty at the door of the fecundity of the Indian people and the Hindu love of offspring. Political condition and economic disturbance are as much responsible for the poverty as anything else.

81. Changed Conditions.—But times have changed, and with them must change individual ideas and social laws and customs. The struggle for existence—if not also education and the efforts of social reformers—is steadily

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1 "In the adoption of a son the Hindu aimed and still aims at satisfying an exacting group of manes greedy in the other world for recognition and offerings in this He looks too for appreciable benefits which he is himself to derive from the future ceremonies the fruit of which will reach him in the realm of shades......in somehow acquiring a son the Hindu thinks generally that he is making the best of all possible bargains for himself in this world and the one to come."—West and Buhler: A Digest of the Hindu Law.

2 "In modern times children are a luxury to the rich, an encumbrance to the poor. In early ages female offspring stood in the same position but male issue was passionately prized. The very existence of a tribe surrounded by enemies, would depend upon the continued multiplication of its males. The sonless father would find himself without protection or support in sickness or old age and would see his land passing into other hands when he became unable to cultivate it. The necessity for male off-spring extended in the case of the Aryan even beyond this world."—J. D. Mayne: Hindu Law and Usage.

pushing up the marriageable age of girls as well as of boys. In fact, early marriages of the latter are entirely opposed to the rule of *Brahmacharya* strongly insisted on by the ancient law-givers. And whatever objection may be raised on religious grounds to the postponement of the marriages of girls, there is nothing to prevent wholesome restraints in married life being practised. Such moral restraints are clearly implied in some of the old restrictions imposed by wholesome custom on married people. Though it may be a little difficult to establish the fact, there is no doubt that the average expectation of life in this country has declined a good deal, and the strain of the modern struggle for existence is responsible for it. The same remark may be safely made with regard to the health of the average Indian. Under these circumstances, it becomes a duty of men and women in India to see that the nation has a healthy and vigorous population which will stand comparison with other races, and will not go under in international competition.

To a Hindu, marriage and the begetting of a son, is a duty which he owes to society. But it is sorely to misunderstand the spirit of the law-givers and of ancient practice to suppose that religion imposes upon the householder the duty of begetting children for whom he can not hope to provide and that a limitation of the family by the exercise of prudence would violate the injunctions of religion and dictates of morality. Manu says:—"By the eldest as soon as born, a man becomes father of male issue and is exonerated from debt to his ancestors; such a son, therefore, is entitled to take heritage. That son alone, on whom he devolves his debt and through whom he tastes immortality was begotten from a sense of duty; others are considered as begotten from love of pleasure."

If it was the sense of duty to society which animated ancient laws with regard to marriage and progeny, may not the same sense of social duty be pleaded in favour of a limitation of families? 'Love of pleasure' Manu speaks of, or blindness to the future, brings on misery to the individual and society and moral restraint which religion

and reason insist upon, is calculated to make for health, wealth and happiness.[1] Hindu law-givers had a certain condition of society in view when they laid down their precepts. Modern conditions may require a modification of those rules. Changes in circumstances and ideas demand changes in social laws.

A low or declining birth-rate is regarded as a sign of advancing civilization, and it is believed that the lower the birth-rate, the higher is the prosperity of a nation. The present tendency in western countries is towards a steady decline of the birth-rate accompanied by growing material prosperity.[2]

82. Vicious Circle.—In the matter of this question of a declining birth rate, we seem to move in a vicious circle. The birth-rate goes down where economic conditions are satisfactory and the intellectual and educational level is high, and a low birth-rate is required to improve the economic condition of the community. Prof. Taussig says that "the causes of the declining birth-rate are to be found in the intellectual and material forces which have

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1 Malthus himself quotes in his 'Essay on the Principle of Population' (Chapter XI), passages from Manu and points out various circumstances which, in his opinion must have operated in India as preventive checks to population. He says —'From all these circumstances combined it seems probable that among the checks to population in India the preventive check would have its share; but from the prevailing habits and opinions of the people there is reason to believe that the tendency to early marriages was still always predominant and in general prompted every person to enter into this state who could look forward to slightest chance of being able to maintain a family.'

2 "The general decline of the birth-rate in advancing countries; the accentuation of that decline among the well-to-do; the probability, almost certainty, that with wider diffusion of prosperity the tendency will spread more and more to all classes—at times is due to social and industrial ambition. Some writers have discussed the change as if it were automatic, as if the lower birth-rate among the well-to-do were the natural and necessary consequence of their having a large income. The connection between income and birth-rate is the other way. rising prosperity is rather the effect than the cause of declining pressure. The fundamental cause is the wish of each family to promote its own material welfare."—Taussing. Principles of Economics.

so wonderfully stirred the people of western Europe during the last century : the spread of education, newspapers and books ; cheap movements by railway and steamship ; the stirring of stagnant population by the new modes of employment, by large-scale production and the factory system, by the changes through emigration."[1]

Unless then the stagnant population of India is educated and stirred and unless new modes of employment and methods of production are adopted, how is the birth rate in this country going to be checked? And will it not be much better if national efforts are directed towards the creation of those conditionss which hold the propensity to multiplication in check?

These questions are suggested by the existing economic. political and social conditions in India. The aboriginal tribes are the most prolific races in India. The prolificness of the Mahomedans seems to be greater than that of the Hindus. It must be greater among the lower and poorer classes than among the higher. The exhortation, therefore, addressed to the people that instead of allowing the hand of death to limit the population to the means of subsistence, they should keep it under control and cultivate the habit of cutting their coat according to the cloth that is available to them, is bound to prove infructuous in India where of the total population of the country, only 59 out of every 1,000 persons are literate in the sense of being able to write a letter to a friend and to read the reply, and the literacy is divided very unequally between the two sexes, only 10 females per thousand being able to write against 106 males per mille. With 94 per cent. of the population not knowing how to read and write, with an average income of Rs. 40 per head of the population and with about Rs. 15 of per capita foreign trade, it is not possible that the causes which have brought down the birth-rate in western countries should operate in India.

The small class of the well-to-do, and the educated people who are a minute section of the population and who feel the strain of the struggle for existence

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1 Principles of Economics.

most, may indeed exercise the moral check to their advantage, but that will not appreciably affect the national birth-rate. The generally high birth-rate in India is attributed to the large proportion of married women and this is not likely to be changed for years. It is futile to raise the marriageable age of boys only, and it is difficult to raise the age in the case of girls. We have shown above that though the birth-rate in India is very high, the excess of births is small, not more than 8 per thousand. While, therefore, the application of the Malthusian principle seems to be called for, there is a bitter complaint about race suicide among the Hindus, at any rate, of certain provinces. The increase among Mahomedans and Christians is much higher than among the Hindus, and this fact is causing anxiety to many. The following figures will make the situation clear :—

	Actual number in 1911 (in millions)	Variation per cent 1901–11	1891–01	1881–1911
Hindus	217·5	5·0	–·3	15·3
Muslims	66·6	6·7	8·9	33·0
Christians	3·8	32·6	28·0	108·1

The difference in the rate of increase is not satisfactorily accounted for by conversions from one faith to the others or similar other causes, and it is attributed largely to the peculiar social customs of the Hindus such as child marriage and prohibition against widow marriages The high rate of infant mortality also keeps down the natural increase.[1]

It is an interesting phenomenon that the fecundity of marriages is not high in India compared with that in Eng-

1 "The moral of all these facts is plain. The Hindus are not yet a dying race, but surely they are on that track. Fortunately, its causes are perfectly plain. They have to thank their own social customs, which, as we shall see later on, are ruining them in several other ways too. In spite of Muslim rule for over a thousand years, the Hindus formed 80 per cent. of the population of this country in 1870, but now they are not even 70, and the decimation comes this time from within and not from without—surely a harder foe to combat. The momentous question is 'Are we to remain indifferent in the face of this crisis.'"—M. S. Kamat : The Census of India.

land, for instance, in spite of the universality of marriage and early marriages in this country. The births per thousand of females of reproductive ages (15–45) in England and Wales calculated on the figures of the census of 1911 were 98 against 128 in India. But if births are calculated on the number of married females of those ages and not on the total number of females between 15 and 45, the Indian figure stands at 160 against 196, the figure for England.[1]

83. Conclusion.—Over-population is a relative term, and whether a given population may be maintained in comfort, will depend upon its productive capacity. As a fertile piece of land will feed more mouths than a sandy one, a group of industrious persons will produce a larger quantity of food and other forms of wealth than one of lazy people. A lower standard of living will likewise enable a larger number to be supported than a uniformly high standard. A growing population must have a proportionately increasing quantity of subsistence if its standard of living is not to be lowered. A community must, therefore, produce more to keep pace with the increase in its numbers. An increase in numbers often means an augmentation of the productive capacity of the community and is, therefore, not an object of anxiety. But the law of diminishing returns will come into operation when a certain stage of increase is reached and the result will be deterioration and misery.

Growth of population, in itself, is not a sign either of progress or decay. It is checked by diseases, famines, and wars or its growth may be limited by human prudence and moral restraints. Under favourable conditions neither the positive nor the preventive checks may be called into operation and a vigorous population will produce more wealth than is absolutely necessary to support it. If the pinch of increase is felt, migration and emigration will be resorted to and the pressure will be relieved; and better organized and more efficient methods of production and distribution will have the same ameliorating effect. Ambi-

1 P. K. Wattal: The Population Problem in India.

tion, the desire of independence and absorption in intellectual pursuits will lead people to postpone or avoid marriages and the number of children brought into the world will tend to become smaller in a community where such persons form a large portion of the population.

There is no doubt about the fact that in India two or three generations ago, as in earlier centuries, the means of subsistence were ample in comparison with the population. Positive checks were also largely in operation and therefore the pressure of population was not felt. With the establishment of peace and steady govenment, under British rule, however, a gradual increase in numbers began which was checked only by famines and diseases. The increase was not accompanied by a proportionate augmentation of the productive power of the people, and indigenous industries having declined in the meanwhile, the effects of over-population began to be felt. Things began to look up a little with the increased demand for India's raw materials and the consequent rise in their prices. But this is not enough to meet the requirements of a growing population, much less to raise its standard of living.

The problem may be solved by emigration and internal migration. But scope for this is small. Indians are not treated well in the Colonies, in some of which the door is slammed in their faces. Internal migration is possible to a certain extent, from thickly populated districts to tracts where population is sparce. Land which is not cultivated or which is not properly cultivated, may be made to yield a larger quantity of food. But the most efficacious remedy is to enhance the productive power of the soil all over the country. There are indeed serious difficulties in the way, but something may be done in this direction. We, therefore, ultimately come to this that the pressure of population on the means of subsistence can be relieved only by the spread of education, an improvement in all-round efficiency and by a more efficient organization of production. The prospect in the immediate future is not, therefore, bright unless vigorous and determined efforts are made by Government and people, and

moral checks to population would prove useful to a limited extent whenever they can be exercised.

In India, though the actual excess of births over deaths is not very large, both the birth-rate and the death-rate are high.[1] Postponement of marriage and conscious limitation of the numbers of children in families are the preventive restraints suggested by Malthus and advocated by his followers, which have succeeded in keeping down the growth of population in western countries. The remedy can be adopted by educated people in India, but the masses cannot appreciate the situation. As enlightenment spreads, the rate of growth declines and the increase takes place only among the lower classes. The Multhusian remedy is not, therefore, likely to be resorted to in such a way as to produce any appreciable effect upon the natural growth of population in India.

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1 "Broadly speaking, the actual checks to population in China, India, and many other parts of the world are still those so well described by Malthus. In India, it is true, British rule has abolished civil war, and the total population has increased very rapidly during the last century as railways, irrigation works, and other modern innovations have added to the productive capacity of the country. But famine is still lamentably frequent, and in spite of industrial progress it would seem to be true that the population readily rises up to the limits of the means of subsistence."—W. T. Layton: Introduction to An Essay on Population by Malthus.

CHAPTER VIII.

The Economic Revolution

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84. Exchange.—Except in a state of primitive economic organization, the work of wealth-production is not completed till the commodity produced is exchanged for another, and if necessary, taken to a place where it will find purchasers. A worker may indeed conceivably produce for his own consumption, and not to speak of old times, in backward communities even at the present day, self-sufficing families and communities are not quite uncommon. But a division of labour is found necessary as a community advances, and specialization and co-operation in the case of individuals and groups of individuals, characterise the progress of civilization. Individuals exchange with one another the goods they have produced and thus satisfy their special wants. When one commodity is exchanged for another without the intervention of a third, which is the measure of value, we have a case of barter, and the use of such a medium of exchange bespeaks the advance of a community to a money economy.

In the village life of India, exchange is very simple and most of it is of the nature of barter. The cultivator will often buy his implements and clothes by exchanging the produce of his fields for them and wages are also paid in kind. Formerly the revenue of Government was paid in grain, but the system of barter is fast giving way before the use of money and is now almost unknown in towns. The medium of exchange having recently come into greater use, a struggle for the possession of money as a ticket for the purchase of any desired commodity, is becoming universal except in out-of-the-way places to which modern methods of trade and industry have not yet penetrated.

It is impossible to overestinate the advantages of exchange, and a comparison of the ease with which even a person of ordinary means can, now-a-days, obtain a variety of articles, necessaries of life and luxuries, in his own locality, with the extreme difficulty experienced in the matter only a few years ago, will be instructive. Owing to facilities of exchange, the villager can now draw upon the whole world for supplies. When a district is afflicted with scarcity, it can bring grain from neighbouring or even distant districts and provinces. Burma thus supplies large quantities of rice to the rest of India in times of drought.

85. Markets and Fairs.—On market days and fairs, villagers go regularly to the neighbouring town, and all kinds of purchases are made. These provide opportunities both to sellers and purchasers to dispose of surplus produce and to procure the articles required. In very small villages, there is hardly a single shop for such necessaries of the rayat as vegatable oil, kerosene, chillies, salt and vegetable or luxuries such as sugar, and they have to be regularly procured from the town hard by or from the market held regularly once or twice a week. At these markets articles can be had in sufficient variety and in the required quantity, and the prices also are reasonable. Cultivators, weavers, potters and other producers take their goods to the market or fair where they command a large sale and middlemen and merchants also do a large business on market days.

Where villagers, whether cultivators or artisans, exchange the produce of their labour directly to satisfy their wants, it is a case of barter. The cultivator will then obtain his cloth, shoes, earthen pots, &c, from the village artisans in exchange for the *baluta* or fixed grain charge paid to them annually. This village system is, however, being steadily displaced, and payment of money is becoming common. In markets and fairs, this is, of course, the usual practice. Every village of decent size, has a shop or two of groceries and this is the only source of the supply of articles of every day use to the villagers. Other things must be purchased on market days as pointed out above. The weekly markets in certain places are of great size and attract sellers and purchasers from miles. Families lay in a stock of necessaries to last them for a week. Knick-knacks, sweetmeat and other articles of luxury are generally purchased at fairs, most of which are associated with religious or social festivals.

Any extensive division of labour in the sale of commodities, is not possible in small places. It is only in big villages and towns that merchants and shopkeepers specialise in the sale of articles. The shopkeeper plays a very important role in the village community, and in small towns too he discharges a useful function. He keeps a pretty large stock of goods ready to meet the demands of his customers whenever they may choose to buy. He procures his supplies from different commercial and industrial centres and retails the articles as they are wanted

Railways, which now traverse the whole continent, have revolutionised this old system of exchange. The network of railways covers the whole country and has brought distant provinces in close contact with one another. Before the fifties of the last century, the means of communication in India were difficult, and though commerce was maintained between north and south and east and west, it was precarious and its volume exceedingly small. Inter-provincial trade has enormously increased since then and the surplus of one province and district goes to supply

the deficiencies and needs of other provinces and districts while the country as a whole has been brought into direct touch with the outside world.

86. Ancient Indian Commerce.—This stimulus which the improvement of the means of communication, such as railways, steamships, metalled roads &c. have given, is most markedly seen in the wonderful development of the foreign trade of India. The sea-borne and foreign trade of India has had a brilliant history. The valuable products of Indian workmanship and of the Indian soil, attracted merchants from all parts of the globe and the people of this country carried on a profitable trade with the most distant parts of the world.

In the Vedas there are distinct references[2] to those who 'desiring wealth send ships to the sea' and to voyages of 'parties of merchants going on the ocean in ships with a hundred oars, to distant lands for sale and barter.' In Budhist literature there is frequent mention of internal trade routes traversing the continent along rivers and coasts, e. g. Broach to Burma, and land roads.[3] Kautilya speaks of the comparative advantages of water routes and land routes and cart tracks and foot-paths; and differing from his teacher, prefers the route leading to the

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1 "From the earliest days, India has been a trading country. The industrial genius of her inhabitants even more than her natural wealth and her extensive sea board, distinguished her from other Asiatic lands. In contrast with the Arabian Peninsula on the West, with the Malayan Peninsula on the East, or with the equally fertile Empire of China, India has always maintained an active intercourse with Europe. Philology proves that the precious cargoes of Soloman's merchant ships came from the ancient coast of Malabar. The brilliant mediaeval republics of Italy drew no small share of their wealth from the Indian trade. It was the hope of participating in this trade that stimulated Columbus to the discovery of America and De Gama to the circumnavigation of the Cape of Good Hope. Spices, drugs, dyes, and rare woods; fabrics of silk and cotton; jewels and gold and silver—these were the temptations which attracted the first adventurers from Europe."—Sir W. W. Hunter: The British Empire.

2 P. T. Shrinivasa Iyengar: Life in Ancient India.

3 Rhys Davids: Buddhist India.

south to one leading to the Himalayas with the remark, 'for, with the exception of blankets, skins and horses, other articles of merchandise, such as conch shells, diamonds, precious stones, pearls and gold are available in plenty in the south.'[1] The spices, timber and other products of South India were highly prized in foreign countries and Indian luxuries were in great demand in Rome.

The prosperity of ancient Indian commerce is a matter of history, and it will be no exaggeration to say that the political development of the nations of Europe, and therefore of the whole world, has been shaped by the keen competition of European powers for the monopoly of Indian trade. The position of India was simply unique.[2]

From the time of Darius when 'India' was a satrapy of the Persian Empire to Alexander the Great's invasion of the Punjab, from the Mauryan period of Indian history to the palmy days of the Roman Empire, from the fall of Rome to the Crusades and from the Holy Wars to the struggle of Portugal, Holland, England and France, India's communication with Western Asia and Europe was maintained along sea and land routes and Indian harbours on the western and eastern coasts were ever alive with trade in indigenous products like diamonds, pearls, spices, ivory, cloth &c. India received payment largely in precious metals from the West. The foreign trade was carried

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1 Arthashastra, (Shama Shastri's Translation) page 368.

2 "We shall have ample evidence to show that for full thirty centuries India stood out at the very heart of the Old World, and maintained her position as one of the foremost maritime countries. She had colonies in Pegu, in Cambodie, in Java, in Sumatra, in Borneo, and even in the countries of the Farther East as far as Japan. She had trading settlements in Southern China, in the Malayan Peninsula, in Arabia, and in all the chief cities of Persia and all over the east coast of Africa. She cultivated trade relations not only with the countries of Asia, but also with the whole of the then known world, including the countries under the dominion of the Roman Empire, and both the East and the West became the threatre of Indian commercial activity and gave scope to her naval energy and throbbing international life."—Radhakumud Mukerji: A History of Indian Shipping and Maritime Activity.

on for centuries through Persia, Mesapotemia and Asia Minor and over the Arabian sea from and to ports on the Malabar coast. The share of southern India in this foreign trade, was considerable.

The history of India's foreign trade during the seventeenth and eighteenth centuries, is a record of the commercial rivalries and of a struggle for trade supremacy among the Portuguese, the Dutch, the French and the English. One after another, these rivals dropped out, and the British East India Company remained master of the field. "Just before the first half of the eighteenth century, the English had to face the open hostility of the French; and the history of trade is merged in that of territorial acquisition, till in 1813 the trading functions of the Company in India were brought to a close, except so far as the monopoly of trade with China was concerned and this also ceased in 1833."[1]

India's foreign trade in the beginning of the nineteenth century, was comparatively very small. The European adventurers had not been able to penetrate the interior of the country and there were no facilities for such impenetration. "It was in fact practically impossible to penetrate inland or to draw thence to the coast any of the products of the interior; and even if facilities had existed for local traffic, it would have been impossible in the conditions of navigation which then existed, to convey to Europe at a profit the bulky articles of low value which now maintain great fleets of ocean steamers and are the staples of Indian trade."[2]

The monopoly of the trade and the disturbed nature of the internal state of the country, were additional causes which limited the dimensions of the foreign trade. The East India Company, however, selected precious cargo which fetched enormously high prices in England, and the dividend it gave in 1832 was 150 per cent.

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1 Imperial Gazetteer, Vol. III, page 259.

2 Ibid.

87. Under Company Government.—The Mahomedan and Hindu rulers did not and could not devote much attention to the development of foreign trade. European traders secured concessions from them and established their 'factories' at various ports. Abul Fazl describes a number of these busy ports and referring to the coast of Gujarat, remarks :—" Through the negligence of subhedars and their officers, several of the sirkars are in the possession of the Europeans; amongst the number are Dummun, Surjaun (St. John) Tarapoor, Mahum, and Bussy (Bassien), which are cities and emporiums."[1] The country was so rich that it was not felt necessary to exchange indigenous produce for foreign imports to the same extent as it was in European countries which vied with one another to obtain the valuable products of India. The rulers were self-centred and were concerned more with the stability and prosperity of their own kingdoms than with the foreign trade of the country as a whole. As Sir W. W. Hunter remarks, the British rulers were not temple builders like Hindu kings or palace builders like Mahomedan nabobs and emperors, or fort-builders like the Maratha warriors, but they were essentially builders of commercial towns, and their talent lay in selecting and developing centres of trade. In the hands of the British East India Company, which had become a territorial and sovereign power by the beginning of the nineteenth century, foreign trade steadily increased in dimensions. At the beginning of the eighteenth century the value of exports hardly amounted to one million £, but by 1834 it exceeded £ 8 million.

Under the rule of the Moguls and the Marathas, internal trade continued to be carried on in the old way. Big caravans conveyed goods from one part of the country to another and one class of traders specialized in this traffic. Abul Fazl describes various centres of industry and the kind of trade that was carried on with them. Speaking of the subha of Malwa he says that 'this province is so fertile that it supplies both the Deccan and Gujarat with

1 Ayeen Akberi.

grain.' Agra, Allahabad, Burhanpur and other large cities are described as industrial centres where craftsman of all denominations congregated and produced rich variety of articles. Among the commodities imported into Oudh from the Northern mountains the following are mentioned :—Gold, copper, lead, musk, cow tails, grapes, pepper, wax, woollen cloths, wooden ware, amber, rock salt and glass toys. They were brought on the backs of men horses and goats.

The Industrial Revolution in England which meant the introduction of steam power and machinery and consequently the production of cheap articles on a large scale, synchronised with the stagnation and decline of the industries of India, which were reflected in and assisted by India's foreign trade. Indian trade was opened to European private merchants in 1813, and during sixteen years after that date, the Company's trade averaged £ 1,882,718 annually, while private trade averaged £ 5,451,452 annually.[1]

This unfortunate revolution in the course of the foreign trade of India was disastrous to her industries. The people were driven from their handicrafts to the plough, and agriculture tended to become the sole support of an increasing population. The unsatisfactory economic condition of India to-day, when our exports consist mainly of raw materials and our imports of manufactured goods, may be traced to this revolution. How the position of India as a producer and exporter of cotton piece goods was reversed, may be seen from the following figures relating

1 "The process of the extinction of Indian manufactures went on, however, under the new arrangements; in 1813 Calcutta exported to London two millions sterling of cotton goods; in 1830 Calcutta imported two millions sterling of British cotton manufactures. The first import of British cotton twist into India was in 1823; in 1824 it was 121,000 lbs.; in 1828 it rose to 4,000,000 lbs. Woollen goods, copper, lead, iron, glass and earthen ware were also imported. British manufactures were imported into Calcutta on payment of a small duty of $2\frac{1}{2}$ per cent, while the import of Indian manufactures into England was discouraged by many duties ranging up to 400 per cent. on their value."—R. C. Dutt: "India Under Early British Rule," page 293.

to the import of Indian cotton goods into England, and the export of English cotton goods to India.

Cotton Piece Goods imported into Great Britain from the East Indies :—

1814	...	1,266,608	Pieces.
1821	...	534,495	„
1828	...	422,504	„
1834	...	306,086	„

British Cotton Manufactures Exported to India.

1814	...	818,208	yards.
1821	...	19,138,726	„
1828	...	42,822,077	„
1835	...	51,777,277	„

88. Features of Foreign Trade.—While this reverse process was in operation, imports of British cotton goods had to pay a duty of only 3½ per cent; while the corresponding imports into England were subjected to a duty of 10 per cent. Owing to the defective character of the means of communication in India and the heavy freights which had to be paid on exports abroad, the development of trade was very slow.[1] A policy of vigorous improvement of communications and the construction of railways, was commenced in the time of Lord Dalhousie and was pursued in spite of financial difficulties. Interest on railway capital guaranteed to companies or raised by Government was paid out of revenue and 'cotton roads' were pushed on with rapidity. Fed with the free trade doctrine which had become the economic creed of England and urged forward by the self-interest of Lancashire, Government was anxious to open the country by means of railways and roads in order to facilitate the export of India's raw products and the imports of manufactured

1 " The progress of the trade continued, however, to be comparatively slow, owing to the natural obstructions which remained after the Company had established its rule over much of the Indian continent. During the first half of the nineteenth century roads were non-existent except where they had been constructed for military purposes ; off these great routes all traffic was carried over narrow unmettled tracks impossible during the monsoon."—Imperial Gazetteer, Vol. III, page 261.

goods regardless of the consequences to the economic future of the Indian people.

The steady growth of India's foreign trade will be seen from the following figures:—

			Imports, including treasure.	Exports, including re-exports.
Average	1834-5 to 1838-9	Crores of Rs.	7.32	11.32
"	1839-40 to 1843-4	"	10.45	14.25
"	1844-5 to 1848-9	"	12.21	16.99
"	1849-50 to 1853-4	"	15.85	20.02
"	1854-5 to 1858-9	"	26.85	25 85
"	1859-60 to 1863-4	"	41.06	43.17
"	1894-5 to 1868-9	"	49.31	57.66
"	1869-70 to 1873-4	"	41.30	57.84
"	1874-5 to 1878-9	"	48.22	63.13
"	1879-80 to 1883-4	"	61.81	80.41
"	1884-5 to 1888-9	"	75.13	90.28
"	1889-90 to 1893-4	"	88.70	108,67
"	1894-5 to 1898-9	"	88.56	113 93
"	1899-1900-1903-4	"	110.69	135.59
	1904-05	"	143.92	174.26
	1905-06	"	143.76	177.30
	1906-07	"	161.87	182.74
	1907-08	"	178.93	182.93
	1908-09	"	151.53	159.46
	1909-10	"	160.17	194.36
	1910-11	"	173.47	217.08
	1911-12	"	197-52	238.36
	1912-13	"	228.46	256.85
	1913-14[1]	"	234.74	259.09
	1914.15	"	166.73	187.46
	1915-16	"	150.11	207.70
	1916-17	"	198.70	253.72
	1917-18[2]	"	164.03	244.9
	1918-19[2]	"	188.5	255.2

The characteristic features of this development of trade which arrest attention, are (1) that the old staples

1 Figures for the war period and post-war years, are not useful for comparison on account of the abnormal conditions of war time and the extraordinarily high prices which have recently prevailed. The figures for 1919-20 broke all past record, the total import and export trade, exceeding 500 crores of rupees in value.

2 Excluding treasure.

of export and import have entirely been replaced by others. The rare and valuable products of India, manufactures as well as raw materials, which were in demand in foreign countries, have now given place to such raw materials and food grains as are required in those countries for purposes of manufacture and food.[1] The imports consist mainly of manufactured goods which are either altogether new to the use of the people, e. g. motor-cars. matches &c. or have displaced articles formerly turned out in this country. (2) The annual excess of exports over imports has steadily increased so that the balance of trade is normally largely in favour of India. Bulk of this excess represents the 'Home Charges' which this country has to pay annually in England, the profits of European merchants and firms and the savings of European officials remitted to England. (3) The balance of the excess is received in India in the form of gold and silver. (4) The net imports of the precious metals, though they appear to be absolutely large, are not considerable in view of the large population of this country. (5) These imports of the precious metals also point unmistakably as much to the economic backwardness and low standard of living of the people as to their peculiar habits and social customs. (6) Bulk of the imports, about 65 per cent., come from the United Kingdom which, however, takes only 25 per cent. of our exports. (7) The profits of this trade and the gains derived from shipping, insurance, banking &c. connected with it, fall

1 The exports of textiles, sugar, coffee, indigo, shawls, silk &c, have fallen off and those of raw cotton, jute, oil seeds and tea have increased. This increase is largely taken by foreign countries. Thus between 1875-76 and 1913-14, the exports to the United Kingdom of silk goods fell from 12½ lakhs to Rs. 1¾ lakhs, of sugar from 17¾ lakhs to 4½ lakhs, of indigo from 1¾ crores to 6 lakhs, of shawls from 8 lakhs to 12 thousand, of raw cotton from 7¼ crores, to 1½ crores while the exports of tea increased from 2 crores to 10⅓ crores, of grain and pulse, from 3¼ crores to 12 crores and of raw jute from 2¼ crores to 11⅓ crores. The imports from the United Kingdom during the same period, increased in the case of cotton goods from Rs. 18⅓ to 59⅛ crores, of hardware and cutlery from 46⅓ lakhs to 2½ crores and of soap from 2½ lakhs to 68½ lakhs.

into the hands of Europeans. (8) By its effect on consumption and production, foreign trade has brought about a social no less than an economic revolution. And (9) internally it has tended to establish a new equilibrium of supply and demand and the equalization of prices over large areas

89. Industrial Revolution.—The change in India form a position in which there was a healthy co-ordination of the agricultural and non-agricultural industries to a condition in which the country has become a big market for the sale of Western, (now Japanese also,) manufactures and a field for the production of raw materials to be manipulated in foreign factories and mills, is a case of retrogression which is responsible for the decadence and poverty of the people.[1] The position of dependence and helplessness was accentuated by the extension of railways [2] which threw into disorder the old economic

1 "The great Indian Dependency of England had, during this century, come to supply the place of the old colonies. This Dependency has come to be regarded as a Plantation, growing raw produce to be shipped by British Agents in British ships, to be worked into fabrics by British skill and capital, and to be re-exported to the Dependency by British merchants to their corresponding British firms in India and elsewhere. The development of steam power and mechanical skill joined with increased facilities of communication, have lent strength to this tendency of the times, and as one result of the change, the gradual ruralization of this great dependency, and the rapid decadence of native manufacture and trade, became distinctly marked. Even now the danger is not over."—Ranade: Essays in Indian Economics.

2 "The extraordinary rapidity with which the construction of railways in India was achieved, produced an economic revolution in that country which like all revolutions, was not unaccompanied by suffering. The obligation to save life in times of drought and the necessity of lines of strategic utility (for it was the mutiny which gave the first real incentive to construction) have been the cause of that rapidity, and it has had for effect the destruction of the native industries and the concentration of labour on that very employment to which droughts are the most dangerous. Had strategic or economic considerations allowed the change to be more gradual, it is conceivable that greater powers of resistance might have been shown by the native industries, that the lessons of the West might have been taught before destruction was inevitable, so that labour might have drifted to other occupations as well as to agriculture."—Loveday: Indian Famines.

organization by bringing the factories of England into destructive competiton with the handicrafts of India.

The industrial revolution in England meant the substitution of machinery in the place of manual labour, the application of large masses of capital to wealth-production by professional enterprisers and the conversion of autonomous workers into factory hands. It meant the predominance of manufactures over agriculture and an enormous increase in the quantity of wealth created. It required and led to freedom of trade on account of the urgent demand for cheap raw materials and food and open markets for the disposal of manufactures And it signified increased national capacity for wealth-creation and augmented national dividend. But the industrial revolution which occurred in this country on the establishment of British rule, was not only the reversal of the character of India's import and export trade and the consequent disturbance in the harmony and co-ordination between agriculture and manufactures but the decline of handicrafts and other industries and the resultant impoverishment and demoralization of the people.[1] The growing imports of foreign manufactures and exports of raw products precluded healthy economic development and brought about stagnation and deterioration.

1 The economic revolution which took place in England was the result of indigenous forces, and, as in the case of all external changes which correspond to internal activities, after a period of disturbance during which capital and labour shifted to new spheres of action, a new equilibrium was established. Capitalists who were deprived of the old sorts of investments found new ones offered to them, workmen who found old industries failing, moved to a much larger world of work. But in India the upper classes have lost many of their old sources of income as administrators, soldiers and public servants of various sorts. while the rayat has no compensating source of income in the new transport service........... "and old industries, apart from agriculture, which employed millions all over the country, are being gradually destroyed by foreign competition, which has been actually facilitated by taxes to the amount of thirty millions sterling squeezed out of the rayot's own pocket to pay for improved communications euphemistically called opening up the country to "free trade"—A. K. Connel: The Economic Revolution of India.

The Public Works policy of Government which was directed to the rapid construction of railways and other means of communication and the use of big steamers for the conveyance of goods and of the Suez Canal as the trade route to India, joined to the mistaken enthusiasm of Government for free trade which was utterly unsuited to the condition of India, aggravated the situation; and it will take years to foster a counter-revolution in the state of things which developed in the course of the nineteenth century. The self-interest of British manufacturers saw nothing wrong in this exploitation of India and economists lent the support of their theories to the self-complacency of rulers who congratulated themselves and the country on the economic development which they strove to promote. Famine and poverty were believed to be natural calamities; and foreign trade flourished, railways expanded and public finance was prosperous. The administrators saw everything that they had made, and, 'behold, it was very good.'

90. Theory of Exchange.—The whole theory of international exchange, is based on the reciprocal advantage exchange confers on nations trading with each other. A division of labour thus arises among nations which begin to specialise in particular industries for which they are best fitted owing to natural or acquired advantages. In the early stages of their economic development families and nations were more or less, self-sufficient. But this self-sufficiency was found to be wasteful and specialization was gradually substituted for it. By concentrating its energies and resources upon the production of goods which it can produce at the least cost and exchanging them for commodities which are produced under similar conditions by other nations, a community benefits itself and those nations because production takes place under the most favourable conditions and the benefit is shared by all. From the point of view of pure economic theory, international, like internal exchange, is obviously beneficial. International exchange is only an extension of the principle of exchange between individuals, districts and provinces of the same country. Two nations exchange products with each other because that operation confers an equal

benefit on both. Trade arises between countries on account of the relative and not the absolute advantage that results from it. England may produce wheat more cheaply than Russia but she will produce other articles still more cheaply and will, therefore, exchange the latter for wheat imported from Russia.

This doctrine is, however, subject to important limitations in its application to actual conditions. The question will be dealt with at length in the next chapter. It is sufficient here to point out that free international exchange may, under certain circumstances, lead to economic development that is undesirable from more than one point of view. In the first place, "The so-called system of the territorial division of labour by which the orthodox economists assign to the backward torrid zone regions of Asia the duty of producing raw materials and claim for the advanced European temperate zone countries the work of transport and manufactures, as a division of labour in production which is fraught with the highest advantage to all and is almost a providential dispensation, against which it would be foolish to rebel,"[1] is not such an inevitable necessity or a beneficent arrangement.

Secondly, the economic readjustment which follows such an international division of labour does not stand upon the same footing as the changing and changed tendencies of exchange between individuals, classes and communities within the same political unit. The cosmopolitan ideal militates against the nationalism of peoples who are anxious to conserve their industries in the midst of international competition and struggle for supremacy. Thirdly, the ruin of a nation's industries caused by free international exchange may be an exhorbitant price to pay for the advantage of obtaining foreign commodities cheap. The loss in productive power may be much greater than the gain represented by cheapness of foreign goods secured in exchange for home produce.

91. Effects of the Revolution.—If the advantage of exchange lies in the surplus satisfaction which the parties to the transaction obtain, we must make sure that

1 Ranade : Essays in Indian Economics.

there is such a balance of benefit in a nation's trade with foreign countries.[1] In the case of India, the purely economic revolution went on side by side with far-reaching changes in the administrative system of the country. Being deprived of its share in Government, the middle class lost its enterprise, initiative and energy and considerable wealth was taken out of the country for the support of European civil servants and soldiers. But the *laissez faire* doctrine was in the ascendant, the claims of Indians to equality of opportunity in their own country, were ignored and the trustees who managed India's affairs for the good of her people were content to trust to natural laws, to freedom of exchange and to unrestricted competition without noticing the disastrous consequences of their policy. Even dire famines, diseases, starvation and heavy mortality and the pronouncements of Famine Commissions did not rouse them to action. Industrial skill deteriorated, the peasantry was impoverished, the middle class declined in wealth and influence, indebtedness grew and there was an all-round weakening of the muscles of enterprise and production.

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1 " We are often told that one of the advantages of the expansion of our import trade is that we get our supply of manufactured articles much cheaper and better than we can have ourselves with our present means and appliances. This is true enough and is no doubt our gain as *consumers* but what a price are we paying for this gain, as *producer* and *labourers*? Our home manufactures are almost now gone down and this collapse means to us much more than is commonly supposed. (1stly). It means to us the disruption of our industrial organization and a change from a many-sided system to one resting on the basis of a single industry: (2ndly) it means to us the transfer, enforced, compulsory transfer of one half our industrial population from fields of *skilled* labour to fields of *unskilled* labour, involving as its necessary consequence a distinct deterioration in their standard of life and comfort; (3rdly) it means to us a fearful faling off in the condition and resources of the middle classes, who are the backbone of every fairly progressive community; (4thly) it means to us a dangerous contraction of the total national provision for a growing population: changes all of a grave and wide-reaching character, amounting to a most disastrous economic revolution highly detrimental to the moral, social and intellectual well-being of the entire nation."—G. V. Joshi's Writings and Speeches, page 651.

There has been such a strong revulsion in the mind of economic students against the rigidity of the theory of international exchange referred to above, that even in England, the stronghold of orthodox views on this question, many conversions have taken place lately to the other side which emphasises the view of national, racial and imperial considerations so often ignored by abstract reasoners. A writer observes:—"And the practical conclusion of it all is, (and it might be inscribed as a maxim over a nation's ports in letters of gold), that in the game of commerce which is being played between nation and nation:—Never sacrifice an instrument of production to a foreign nation for the sake of a merely cheaper product of the same kind of instrument but better which they possess but which you do not; but do as you do at home and sacrifice it only to the acquirement of the *superior instrument of production itself*, which cheapened that product—if you can get it."[1] In the industrial revolution which occurred during the last century in India, the indigenous producers lost their instruments. They had no opportunity to adjust themselves to the new conditions and their loss was not the gain of other classes in the country but went to strengthen the economic position of foreign nations, they being left to drift helplessly and be stranded on the rocks and shoals of economic ruin. The lessons taught to England by the experience of the world-war and the action taken by the British Government in connection therewith, throw an interesting light upon the unwisdom of the policy of Indian rulers regarding our industries and trade for over a century.

92. Chief Characteristics.—The internal trade of India is several times as large as the foreign trade and has been enormously stimulated by improved means of communication, the post and the telegraph. The increased dimensions of trade, external and internal, have created a large army of middlemen who make large profits out of exchange operations, and speculation in the dealings of many of the staples is a marked feature of recent

1 John Beattie Crozier: The Wheel of Wealth.

developments. The producer does not get the full value of his commodities on account of the intervention of the intermediaries and the consumer also is a great sufferer. Before describing the organization of foreign trade, especially exports, we shall point out a few important features of our foreign trade in general.

We give below a few figures relating to trade for the years 1904-05, and 1913-14, and the comparison will be found most instructive :—[1]

	1904-05 Rs. (lakhs).	1913-14 Rs. (lakhs).
Total Foreign Seaborne trade (merchandise) ...	262,12	440,35
Exports including re-exports	157,72	249,04
Imports	104,41	191,31
Net imports of treasure	22,97	36,36
Net imports of gold	9,70	23.23
Total inland trade (merchandise)	558,36	870,30
,, Coasting trade (merchandise)	76.53	118,72
,, Frontier trade (merchandise)	13,19	19,25
Gross railway earnings	39,67	62,56
Railroad mileage - miles	27,727	34,699
Total area (1,000 acres)	535,974	618,927
Cultivated area ,, ...	207,721	224,166
Wheat raised (1,000 tons)	7,583	8,427
Rice ,, ,, ...	22,423	28,167
Cotton (1,000 bales)	3,791	5,201
Jute ,, ...	7 400	8,7
Coal (1,000 tons)	8,217	16,208
Shipping : tonnage	13 881	17,386
Customs revenue (Rs. lakhs)	6,20	10,64
Paper Currency (gross circulation)	39,18	66,12
Population, last census (1911)	...	315,083,772
,, preceding census (1901)	...	294,292,433

The share of trade per head of population in India is small as compared with that of other countries, and is Rs 13-3 as against Rs. 24-10 for Russia, Rs. 39 for Japan, Rs. 232 for France and Rs. 386 for the United Kingdom. The increase in the value of the trade shown in the above table, is largely due to the enhanced prices of many of the staple products exported. The exports of

1 Statistics relating to the years of the war period are not given as they represent an abnormal state of things, and the last year of the pre-war period is taken for comparison with 1904-05.

food grains are almost negligible being, 4 per cent. of total production; but the percentage of exports is very high in the case of cotton, jute, tea and indigo, half the quantity produced being exported. The following table gives the percentage of exports of certain principal crops to total production:—

Percentage of Exports to Production.

The quinquennium ending in 1913-14.

Rice...	... 9	Seasamum	... 25
Wheat	... 15	Sugar	... 5
Cotton (raw) ...	... 55	Indigo	... 39
Rape and Mustard ...	... 23	Groundnuts	.. 38
Linseed	... 77	Jute (raw)	... 50

It is a remarkable feature of India's foreign trade that the bulk of the imports consist of manufactured articles and half the exports of raw materials; and this characteristic to which we have referred before, as a disagreeable indication of the ruralisation of India, distinguishes even the latest trade statistics. When after the outbreak of the war, the capture-the-enemy-trade cry was heard on all sides, it was believed that India would be able to fill in the gaps left by the cessation of imports from enemy countries with similar products of home manufacture. But little success could be achieved in this matter; and the reason why India failed when Japan could jump [1] with a bound to occupy our markets, was that this country was ill-equipped

1 The pre-war average share of Japan in our imports was 2·5 per cent. , it increased to 5 7 and to 8·9 per cent. in 1915-16 and in 1916-17 respectively. "Since the out-break of war imports from Japan have increased by 266 per cent. as compared with the pre-war quinquennial average and the exports by 57 per cent. The chief article of import in 1916-17 was piece goods which were valued at Rs 2,43 lakhs as against Rs. 6 lakhs, the pre-war quinquennial average. The next important articles were silk goods, hosiery, watches, glass and cotton yarn. As compared with the pre-war year 1913-14, glassware increased by Rs. 74 lakhs, watches by 52 lakhs, hosiery and hardware by Rs. 44 lakhs each, sugar by nearly Rs. 41 lakhs and cotton yarn by Rs. 29 lakhs."—Review of the Trade of India, 1916-17.

with the essentials of industrial progress and had to look on helplessly.[1]

The grouping of articles of export and import in the trade statistics, is not very happy in view of an inquiry into the form and character of the articles exported and imported. Taking the classification as it is, however, we notice the following relative shares of the four different categories of articles:—

	Exports (1913-14) Rs. (lakhs)	Relative share of each class
1. Food, Drink and Tobacco ..	64,77	26 5
2. Raw materials	122,46	50 1
3. Articles manufactured	54,59	22 4
4 Miscellaneous	2,41	1
Total	244,23	100

	Imports (1913-14) Rs. (lakhs)	Relative share of each class.
1 Food, Drink and Tobacco	24,66	13 4
2. Raw materials etc.	10,56	5 8
3. Articles manufactured	145,16	79·2
4. Miscellaneous	2,87	1·6
Total	183,25	100

That about 80 per cent. of the total imports and half of the total exports of merchandise should be manufactured articles, is a positive proof that Indian people lack the opportunities, the aptitude, the enterprise, the capital and the skill that are required to turn the raw materials into finished products. This represents so much loss of productive power, and dependence on a single industry which is subject to the operation of the law of diminishing returns The expanding imports of manufactured goods are taken as a welcome indication of the steadily growing purchasing power of the people and therefore of material prosperity.

1 The Munitions Board did a good deal in manufacturing locally articles which used to be imported and thus demonstrated the industrial possibilities of India. It is to be seen whether this experience leads to any substantial and permanent results in the immediate post-war period.

It is, however, forgotten that they also mean the displacement of the indigenous industries by foreign manufactures.

Increasing exports are not always a sign of growing prosperity as growing imports may not be an indication of decadence. In the case of India the expanding exports of raw materials represent the payment of various kinds that have to be made abroad. They consist of the Home Charges, payment of interest and remittance of profits by foreign merchants and manufacturers working in this country. Little of the foreign trade of the country is in the hands of Indians and the gains of Europen shippers, planters, miners bankers, millowners &c., sent abroad take the form of the exports for which there is no return, unless a portion of these comes back as capital to be invested in industrial and commercial enterprise and even then it is foreign capital not controlled and used by Indian industrialists. India's foreign trade will be decidely profitable to her people if a large part of the raw materials were worked by them in the country and the profits of industry and trade remained in their hands.

There are considerations which ought not to be ignored in drawing conclusions from export and import statistics of India. The country must certainly import articles which it cannot produce or produce cheaply, and export indigenous products for which there is a demand in foreign markets Indian staples like cotton, jute, tea, oilseeds and wheat command high prices abroad, and we can buy with these exports a larger variety and quantity of foreign goods, conducive to the progress and comfort of the people. Making allowance for the increased prices of the imported articles which are purchased with the exports of steadily growing value and for the fact that these profits are partly absorbed by merchants, shippers, bankers and other middlemen, it must be admitted that the cultivator who grows the commercial crops has, during the last few years, been able to make some unexpected gain, though his cost of production and of living has gone up all round and has thus discounted the betterment.

India does not receive payment for the whole quantity of her exported merchandise in merchandise imports, and the balance due to her is paid in the precious metals because these are in demand in the country as merchandise for use in arts and because it is a cheaper means for foreign countries to liquidate their debt to this country. On account of the large volumes of silver which have flowed into the country, India has been called a 'sink of silver,' and the large imports of gold before the war attracted the attention of the whole world. India's favourable balance of trade is an important characteristic of her economic, financial and currency systems. The balance remained high even during war as a result of reduced imports and steady exports badly required for the prosecution of the war. The following figures represent exports and imports on private account for two quinquennial periods :—

Excess Exports.

Year.		Exports £ (Mill.)	Imports £ (Mill.)	Net Exports £ (Mill.)
1909–10	...	125·2	78·2	47·2
1910–11	..	139·9	86·2	53·6
1911–12	..	151·8	92·3	59·5
1912–13	...	164·3	107·3	57·0
1913–14	...	165·9	122·2	43·7
Average for 5 years.		149·4	97·2	52·2
1914–15	...	121·0	91·9	29·1
1915–16	...	131·5	87·5	44·0
1916–17	...	160·5	99·7	60·8
1917–18	...	161·7	100·2	61·4
1918–19	..	169·2	112·6	56·5
Average for 5 years.	...	148·8	98·4	50·3

93. India's Gold Hunger :—The normal excess of exports over imports is paid to India through the Secretary of State's drawings, which, however, really mean a remittance from India to London, and the imports of the precious metals; and large quantities of gold have thus been recently absorbed in this country. We give below figures

representing the imports of the precious metals into the country. During war belligerant countries put embargoes upon the exports of these metals and trade finance was rendered difficult.

Net Imports of Treasure on Private Account. (Mill. £)

Year.		Gold Coin or Bullion	Silver Coin or Bullion.	Total.
1909-10	...	14·4	6·2	20 6
1910-11	...	15·9	5·7	21·7
1911-12	...	25·1	3·5	28·7
1912-13	...	25·0	4·3	29 4
1913-14	...	15·5	4·3	19·7
Total	...	96·2	24 0	120 2
1914-15	...	3 6	6·6	12 3
1915-16	...	3·2	3 7	6 9
1916-17	...	2 7	1 4	1·3
1917-18	...	14·3	.9	15·2
1918-19	...	·01	03	·05
Total	...	26 0	9·9	35·9

Looking to the large population of the country, its illiteracy and economic backwardness, its lack of opportunities for industrial progress and its poverty, this absorption of gold is not to be wondered at. Thought it is barely one rupee per head of the population, it must be admitted that the country will certainly benefit if the gold could be used as capital for the industrial development of the country.[1]

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1 "It would seem that India is hoarding more than formerly, if by hoarding is meant the non-productive use of the yellow metal. It is used chiefly in the form of ornaments, and as is well-known, most of the gold is imported in small bars to meet a demand in the same way as piece goods are imported...This accumulation of the precious metals is far greater than would be necessary to develop the railways, schools, colleges &c., which are required at the present time. If the gold absorbed in each year had been invested in railways at the ordinary rate of 4 per cent, the interest alone would amount to Rs. 13 crores per annum or in the aggregate to over Rs. 142 crores. Had this been so invested there would have been a great increase in production with a very considerable increase in well-being."—Review of the Trade of India for 1913-14.

Some of the gold coming into the country is, even under existing conditions, being probably used for productive purposes. But the producers are so scattered and the amounts falling to their lot are so small that the gold imports do not make much impression on the industrial situation. And much of the imported gold is undoubtedly used for jewellery. But it is an unjust exaggeration to harp upon India's insatiable hunger for gold. With reference to the allegation that 'an undue proportion of the world's gold supply is absorbed by India', the Babington Smith Committee on Indian Currency came to the deliberate conclusion that the quantity of gold taken by India was not disproportionately large in relation the her economic condition.[1] If the Indian exports enable the people to buy more of foreign commodities so as to promote their economic development and well-being, foreign trade must be a blessing, and the expansion of this trade is to be welcomed and fostered. This elementary principle is undeniable. The point, however, is that there will be a greater production of wealth and a larger number of people will benefit if some of the raw materials now exported to foreign countries to be received back in the form of manufactured articles from them, could be utilized in India and gave scope for the development of the talent, skill and enterprise of Indians themselves. Were it not for this feature of the question, there would be no international struggle for the capturing of markets, pushing and dumping of manufactures and a keen struggle for the promotion of national industries.

94. **Trade Organization.**—Through railways and ocean-going steamers, the Indian cultivator has been brought into close touch with foreign markets. But

1 Report, para. 63.

between him and the foreign consumer stand a number of middlemen who eat into his profits. There are many villages in India which still enjoy their splendid isolation as of yore. They consume what they produce and produce what they consume. But the interior is everywhere being penetrated by the trader who carries off to the trade centres all the produce which is in demand elsewhere in the country or abroad. Producers of raw produce and food grains are poor, ignorant and unorganized and cannot make the best of what they can offer for sale. The cream of the trade is carried away by the middleman, and the cultivator has to be content with what he is paid. This state of things is changing but slowly and the districts swarm with traders and their agents who are out to make profit even by speculation.

Take raw jute as an example. The cultivator sells his stuff to a 'bepari' or petty dealer who has received advances from a 'mahajan' or broker (arathdar). The latter sells to the representative of a large exporting firm or mill and the prices are regulated by the condition of the market, external and internal. As a large quantity of raw material like cotton, oil seeds, hides &c. has to be collected from a vast number of small producers scattered over an extensive area, this machinery of middlemen seems to be inevitable. But there can be no doubt that the intermediary is an evil and the producers have to organize themselves into selling agencies, preferably on the co-operative principle. As matters stand, the cultivator is at the mercy of the 'Dalal'. Co-operative sale and purchase are being established in a few places and in that direction lies salvation. As a buyer or a seller, the ordinary rayat or artisan has to accept what prices and qualities are offered and the elimination of the middleman is the urgent problem of the day.

95. Means of Communication.—During the twenty years 1892-1912, the total mileage of railways more than doubled and though the expansion slackened during war owing to financial and other difficulties, the construction has been resumed in right earnest. The

benefit derived by the country from railways is undeniable[1] and there are several parts of it which are clamouring for their introduction. The mass of the people, producers in particular, have come to appreciate the usefulness of railways, which they regard as a blessing because they yield them higher prices and profits. It is the consumers who grumble at the high prices locally created, though even they like the ease and cheapness of transport. Only railway policy has been too much dictated by the desire to send raw materials for foreign manufacture out of the country with rapidity and at a low cost and to open the interior parts for the reception of imported goods for the people's consumption. No attention was paid to the effects of this policy on indigenous industries and enterprise. The question of rates charged by railways for goods, has long been debated and the complaint has been persistently made that the principles on which the rates are fixed are detrimental to the interests of Indian industries. Railways compete with one another and they and the ports try to attract traffic to themselves. Lower rates are charged upon goods carried from the interior to the ports for export and imported manufactures also are dealt with similarly. The Industrial Commission has recommended the removal of such inequality and injustice.

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1 "Railways have now linked up different parts of the country and have constituted India into, as it were, one market. The deficiency in one part of India now makes itself felt all over the country within a very short space of time and is made good at once, the rise in the price-level being comparatively small. Every village and every district which is connected by rail are no longer self-supporting units. The powerful and ubiquitous agency of organized commerce has taken the place of the former system, the isolated and self-sufficing village."—K. L. Datta: Report on High Prices.

The number of miles of all railways open for traffic at the end of 1913–14 was 34 556 as compared with 27,727 in 1904-05, the increase in the decade thus being 25 per cent. The total number of passengers carried was in round number 458 millions of whom about 411 millions were third class passengers. The total quantity of goods carried was 82,613,000 tons.

Statistics showing the growth of railway mileage and traffic are given below :—

Year.	No of Miles open for traffic.	Passengers. No. (1,000).					Goods traffic.	
		1st Class.	2nd Class.	Inter.	3rd Class	Total.	Quantity tons (1000)	Average rate per. ton per M. (ps.)
1853	20	...	...	...	..	...	...	..
1873	5,697	...	...	...	...	.	.	. .
1893	14,465	...	...	...	..	...	28,847	.
1898	21,993	611	2.253	5,073	131,512	151,566	35.642	6.00
1903	26,851	594	2,580	7,214	184,292	210,231	47.684	5 6
1908	30,576	748	3,327	10,060	284,579	321.169	62,398	5 09
1913-14	34,656	813	3.460	12,371	410,960	457,713	82,613	4 64
1917-18	36,334	883	4,216	7,719	381,017	430,269	85,472	4.07

This extension of railways has revolutionised the internal trade of the country. The extension of metalled roads has assisted in this revolution, and owing to the good prices which producers can command, there is a great demand for the construction of feeder lines and of roads to link up the interior with the trunk lines. There were in pre-British times only a few fairly good trunk roads, and it was in the fifties of the last century that a systematic effort was begun for extending these communications.[1] The railways themselves created a demand for metalled roads ; and the Public Works Department and the Local

1 " Roads have been difficult to construct and keep in repair. For in the great Plains, which are built up of river-borne soil, there is no road metal at hand, and until the British had constructed railways, it was too difficult and costly to bring stone from a distance. So that the roads were merely beaten tracks across the fields, thick with dust in the dry season and impossible on account of mud in the wet. In the hill districts, heavy gradients and torrential downpours defied the road builder. Even now there are only 54,000 miles of metalled road in the country, that is, less than one mile of good road for each thirty square mile of land."—C. B. Thurston : Economic Geography of the British Empire.

Boards are now charged with the responsibility of maintaining communications.

This improvement in communications has stimulated trade from the interior to the ports and between different places in the interior itself. Many of the railways have diverted the old courses of trade, new centres have been formed and the prosperity of old trade centres has declined. In the interior of the country, bullock carts are still indispensable for the transport of goods, though the railways and motor transport have considerably displaced the carts and the pack animals. The old caravans are no longer necessary and exchange has been vastly increased by the reduction of the cost of transport. Railway and maritime freights have steadily gone down and India's foreign trade has thereby expanded with great rapidity.

The Post Office and the Telegraph[1] have largely stimulated internal and foriegn exchange. The rapid development of the Post Office will be seen from the following statistics:—

Year	Miles of Mail lines, land and sea.	No. of Post Offices.	No of Post cards.	Letters.	Parcels.	Packets.
1890-91	109,232	9,419	101,052	179,678	1,901	10,375
1900-01	131,600	12,970	218,351	250,858	2,679	15,176
1910-11	157,759	18,813	413.437	413,677	6,861	56,918
1913-14	155,806	18,946	455,945	467,071	12,667	57,816
1917-18	157,605	19,410	531,629	470,867	14,150	42,822
N. B.—	The figures are in thousands.					

96. Inland trade.—Complete and reliable statistics for internal trade are not available. But from those that are compiled, it is estimated that the inland trade is about

1 The number of inland telegraphic messages increased from $10\frac{3}{4}$ millions in 1909-10 to about 15 millions in 1913-14. The increase in the number of foreign messages was from $12\frac{3}{4}$ lakhs to $16\frac{1}{2}$ lakhs.

three times the foreign sea-borne trade. But this does not take into account the trade by rail and river between the internal divisions of provinces as also the unrecorded rail-borne traffic between one station and another within the the same internal division or trade block of a province or within a Native State. If these are included the total internal trade will be many times the foreign trade of the country.

The port towns of Calcutta, Bombay, Karachi, Rangoon and Madras play an important part in the internal trade; and the bulk of the traffic, representing about two thirds of the total trade, flows directly to and from the chief ports. "The articles of exports are generally indigenous, and the importance of the provincial trade depends on the production of the staple articles in the respective provinces. Bengal's position in the inland trade is high on account of jute, rice and other food-grains, oil-seeds, coal and tea produced in the province. Bihar and Orissa is important for its enormous production of coal. Tea is the staple product of Assam; cotton, wheat and seeds of the Bombay Presidency and Sind; cotton and groundnuts in the Madras Presidency; spring and winter crops (e.g., rice, wheat, gram, lin-seed, rape-seed, &c.) in the United Provinces and the Punjab chiefly account for the large movement of these articles to Calcutta, Bombay ports, Madras ports and Karachi." [1]

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1 "For nearly forty years India has possessed a system of inland trade registration, and in this respect is more fortunate than most countries The registration of the trade is done mainly from invoices by the audit offices of railways, by inland steamer agencies, and by registration posts at selected river stations. For this prupose the country is divided into seventeen trade blocks, which are further subdivided into minor or internal blocks." The quantity and value of total merchandise imported and exported from Provinces, Native States and chief seaports, by rail and river, were as follows :—

		Quantity (in thousands of tons).	Value (in lakhs of Rs.)
1913-14	... ...	67,502	 8,94,06
1914-15	... ...	63,346	 7,87,02
1915-16	... ...	64,914	 8,95,77
1916-17	(Estimated)	67,625	 10,14,38
1917-18	... ...	67,309	 10,26,55
1918-19	(Estimated)	68,636	 12,18,81

The need of improving Indian harbours, has been already[1] adverted to. And the attention of Government has been recently called to this question. Extensive schemes of expansion and improvement have been and are being carried out in the larger ports. Bombay has now three fully equipped wet docks, having a total water area of 104½ acres and a total quayage of nearly 4½ miles; also two dry docks. Over two hundred hydraulic cranes are in use in the wet docks. Direct communication has now been established between the docks and the railways and goods depots. Similar improvements have been effected at the Calcutta and the other ports.[2]

Though the population of the country is mainly rural, and its foreign trade is centred in the larger ports, there are in the interior, a number of commercial and industrial towns which serve as distributing centres. Thus Cawnpur is an important railway junction, situated at about 870 miles from Bombay and 630 miles from Calcutta. It is, therefore, a convenient centre for the distribution of foreign goods, and its factories also produce a variety of commodities such as leather goods, cotton textiles and woollens. Lahore is the chief trading centre for the agricultural produce of the Punjab. Similar mention may be made of Lucknow, Nagpur, and other growing and prosperous towns.[3]

The coasting trade from one port to another in British India, Native States and Foreign Possessions is of a similar character, and its total value in 1918-19 was 157 crores, an increase of 43 per cent. over the pre-war quinquennial average. The land frontier trade is much smaller and was valued in the last pre-war year at Rs. 21.44 crores. Persia, Afghanistan, Dir, Swat and Bajaur, Central Asia, Nepal, Tibet, Sikkim, Bhutan, Western China, Shan States and Siam, participate in this trade. The imports from these places consist mainly of raw materials such as wool,

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1 See page 50.

2 See paper on the subject by Sir George Buchanan read at the Royal Society of Arts, April 1920.

3 Handbook of Commercial Information for India

timber, hides &c., and the exports to them of piece goods, metal manufactures &c.

97. Extinction of Indigenous Shipping—Every maritime country sets a high value upon the ship-building industry and on shipping; and the incalculable importance of these was brought home to the world during the great war by the way in which England and the U. S. A. maintained their hold upon the seas and conveyed food, munitions and soldiers over long distances through water. At one time Indian shipping was extensive and the ship-building carried on in Indian ports was a profitable industry.[1] But the old vessels and sailing ships have been displaced by foreign steamers most of which are of very high carrying capacity. The total extinction of Indian shipping and the entire dependence of this country for transport of its exports and imports upon the mercantile marine of other countries, is a striking feature of the economic revolution which is the subject of the present chapter. And the total freight on the growing foreign trade of the country means a loss of no less than Rs. 30 crores a year, to which must be added the heavy loss to the people on account of the disappearance of a valuable industry. An idea of the shipping engaged in the Indian trade may be obtained from the following statistics :—

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1 "Thus has passed away one of the great national industries of India after a long and brilliant history, covering, as we have seen, a period of more than twenty centuries. It was undoubtedly one of the triumphs of Indian civilization, the chief means by which that civilization asserted itself and influenced other alien civilizations. India now is without this most important organ of national life. There can hardly be conceived a more serious obstacle in the path of her industrial development than this almost complete extinction of her shipping and ship-building."—Radhakumud Mookerji : History of Indian Navigation and Maritime Activity.

	No. of vessels.	Tons (1000)
1910–11	8,561	14,994
1911–12	8,868	16,616
1912–13	8,749	17,484
1913–14	8,617	17,386
1914–15	7,960	12,857
1915–16	8,634	12,152
1916–17	10,386	11,954
1917–18	11,459	10,868
1918–19	9,491	10,479

Since the opening of the Suez Canal, foreign trade has been carried mostly in steamers at the expense of sailing vessels. "A few sailing vessels still visit Calcutta, but the sailing ships entering other ports are now almost entirely those classed as native craft which, though numerous, contributed in 1913-14 less than one per cent. of the tonnage, and were engaged in trade chiefly with East Africa, Arabia, Persia and Southern Asia. They are slowly but surely disappearing." The vessels which enter and clear the ports of India for the most part fly the British flag, the tonnage of vessels sailing under that flag representing about 75 per cent. of the whole, of which 2 per cent. is the tonnage of vessels under the British Indian registry.[1]

98. Foreign Shipping and Subsidies.—Vessels belonging to foreign countries are obtaining an increasing proportion of the carrying trade, and the Governments of those countries pay large subsidies for encouraging navigation, ship-building and the extension of steam-ship routes. The total amount of subsidies of all kinds paid by

1 Review of the Trade of India, 1913–14.

In 1913–14 the numbers of vessels under the principal flags were, British and British Indian 5,454. German 559, Austro-Hungarian 285, Japanese 191, Norwegian 80 and French 60.

While, of course, enemy ships disappeared during the war, there was a large increase in the number of Swedish, Norwegian, Dutch and Japanese vessels that entered and cleared in the foreign trade. Japanese vessels increased from 130, the pre-war average, to 283 in 1915–16 and to 477 in 1916–17.

the Japanese Government to its steam-ship companies in 1911 came to more than Rs. 2 crores. With the help of the State, Japanese industries and trade have been making rapid progress, and shipping and ship-building have not been neglected by that progressive nation. The activities of the Japanese mercantile marine are no longer confined to Asiatic waters, and Japanese steamship companies have established direct business with European and American ports. Japanese firms have also entered import and export business in India in right earnest and they are throwing their tentacles far and wide. The following table shows the nationality of vessels entered and cleared in Indian ports. The figures exclude native craft and vessels [1] engaged in the coasting trade:—

Nationality of vessels entered and cleard.

	1911-12	1912-13	1913-14	1914-15	1915-16	1916 17
British	5,117	5,131	4,827	4,827	5,057	4,836
British Indian ...	647	609	503	600	539	762
Japanese ...	121	198	191	183	283	479
Norwegian	134	131	80	158	177	267
Dutch...	82	120	131	128	141	213
Italian ..	93	90	73	83	91	86
Russian	45	47	44	33	51	45
Swedish	6	11	13	22	40	51
French	58	47	60	35	9	6
American	...	...	...	...	13	13
German	472	509	559	172	..	...
Austro-Hungarian ...	213	245	285	83	...	...
Other nationalities ...	22	23	30	30	38	25
Total ..	7,000	7,161	6,920	6,349	6,449	6.055

1 The total entries and clearances in the coasting trade of all vessels with cargoes, excluding native craft, decreased, in 1916-17 to 10,830 vessels with a burden of 13 million tons, from 13,011 vessels with 16 million tons in the preceding year and 18,750 vessels with nearly 29 million tons, the pre-war quinquennial average. In the coasting trade the percentage of British Indian vessels in the total tonnage excluding Native craft has increased from 8 per cent. in the pre-war period to 13 per cent. in 1915-16 and 15 per cent. in 1916-17. British vessels formed more than three-fourths of the total tonnage. The number of native craft employed in the coasting trade was a little more than 150,000.

It may be contended that a large mercantile marine is not indispensable to the greatness or even to the prosperity of a nation, and the contention may be based upon the theory of the division of labour among nations and of specialization. We may be told that India may rely upon England to supply the necessary shipping and that it would be wasteful for her to have a mercantile marine of her own. But Gide,[1] who describes what strenuous efforts[2] the French Government has been making to promote the growth of French shipping, anticipates the Free Trade argument 'that it may be much more advantageous for a country to have its goods transported cheaply by other countries better equipped for the purpose than to do it itself,' and asks in reply 'whether it would not be good for a country as favourably situated as the others to do it itself.'

With a growing foreign trade, India is nowhere in the matter of shipping and ship-building when compared to other countries. Here is an important avenue of wealth-creation for the Indian people. If India can transport her imports and exports in her own steamers, she will save Rs. 30 crores a year in freights[3] and will give employment to thousands of workmen of all grades. It is anamalous

1 "Maritime transport is a lucrative industry, and that a country which, like Holland in former times and England to-day, transports the goods of all other countries, will find profit in doing so; while the country which has to apply to other countries to transport its own products must evidently pay the price of it. Thus France, who transports only a small proportion of her exports, has to pay over £ 12,000,000 annually to foreign ship-owners; while England who transports two-thirds of the tonnage of the whole world, and who besides builds ships for all nations gains by this two-fold commerce over £ 80,000,000 per annum."—Gide : Political Economy.

2 These efforts have apparently proved, according to Gide's showing, wasteful as the nation has hardly received in return even a portion of the value spent in subsidies to ship-owners and ship-builders.

3 The freight per ton to London for Indian rice and wheat, which was about 11 s. in 1896, 15 s. in 1906 and £ 1 4 s. in 1914, rose to £ 4 in 1915 and to £ 8 8 s. in 1916.

that India should be entirely dependent on other countries in a matter like this when the traditions of the people ensure the success of indigenous shipping and the requirements of economic progress demand development in that direction. India has in abundance the material out of which sturdy and enterprising sailors are made They ply their boats along the coasts and take them to the Persian Gulf and harbours of other neighbouring countries. But even the brave Indian lascars are not tolerated on British steamers and thus are opportunities to promote legitimate improvement denied to Indian people.

CHAPTER IX.

Commercial Policy.

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99. Freedom of Trade.—The account given in the last chapter of the economic revolution which has taken place in India and has reduced the people to the state of producers of raw materials and consumers of foreign manufactured imports, leads naturally to a discussion of the question whether it is desirable that trade should be left to take its own course or it should be so regulated as to move in certain channels with a view to its conferring upon the nation specific economic benefits. As we have shown in the last chapter, the theory of international trade extends the idea of the simple and mutually beneficial exchange between individuals, to the commerce between communities and countries, and on that theory, nothing can be more detrimental to humanity than any restrictions upon free intercourse between nations.

This theory took a long time to develop and to be put in practice. Commerce with strangers was, for centuries, looked upon as a bargain in which one of the

two parties derived benefit, and foreign trade was nothing but the exploitation of foreign countries for the advantage of one's own nation. The Physiocrats believed that foreign trade, like domestic, produced no real wealth and if one of the parties to the bargain gained, it was at the expense of the other. They, however, condemned the restriction of foreign trade on the ground that liberty and free competition alone made plenty possible.

100. Mercantilism—The Physiocratic doctrine represented the reaction which took place in France against Mercantilism that held the European field for nearly three hundred years. Adam Smith, following and improving upon the Physiocrats, led this movement in England, and the policy of commercial restriction became discredited there till in 1845 the last shackles on international exchange were thrown off and the flag of free trade was planted on the citadel of British mercantilism. It was at one time the fashion to pass wholesale condemnation upon the thought and policy of Mercantilists but they have recently been better appreciated.

Mercantilist tendencies which prevailed in Europe in the sixteenth, seventeenth and eighteenth centuries, are thus summarised:—"(1) Towards over-estimating the importance of possessing a large amount of the precious metals; (2) towards an undue exaltation (*a*) of foreign trade over domestic, and (*b*) of the industry which works up materials over that which provides them; (3) towards attaching too high a value to a dense population as an element of national strength; and (4) towards invoking the action of the state in furthering artificially the attainment of the several ends thus proposed as desirable."[1]

In spite of the obvious errors and exaggerations of Mercantilism, the circumstances of the time, it is now conceded, necessitated its adoption and even rendered it beneficial. Even Adam Smith justified certain exceptions to his general doctrine of liberty and approved of the English Navigation Act on the ground of defence being more

1 Ingram: History of Political Economy.

important to a nation than opulence. The theory of commercial freedom was perfected by Adam Smith's followers, and in the hands of Ricardo and Mill, it assumed a rigidity which, in its turn, provoked a reaction. By the middle of the nineteenth century, the Free Trade theory of the Classical School had won a complete triumph in Europe.[1]

101. Reaction.—But the sense of triumph felt by the advocates of free trade was rudely disturbed by the appearance of List's system of National Political Economy. The Political and economic conditions of Germany favoured the success of his book and of the new doctrines it preached, and the publication of List's work was as great a land-mark in the development of economic thought as the appearance of the Wealth of Nations had been two generations before. List's work was characterised by originality, and he was a pioneer in the field of developing national Political Economy. He introduced two ideas that were new to current theory, namely, 'the idea of nationality as contrasted with that of cosmopolitanism, and the idea of productive power as contrasted with that of exchange values.'

High hopes had been entertained about the spread and acceptance of the free trade doctrine, and it was believed that a new era of universal peace and amity had dawned. But this dream was shattered by the awakening of national conciousness in countries which were economically backward and by the growing desire among them for many-sided national development. List maintained that regulation of trade and industry was necessary for the systematic development of a nation's resources and of its latent productive capacity, which may be hampered by foreign competition. "The American economist, Carey, directed his attack, like List, against the industrial pre-eminence

1 "Freedom of international trade was accepted as a sacred doctrine by the economists of every country. In Germany, as in England, in France as in Russia, there was complete unanimity among scientific authorities. The socialists at first neglected this topic, and when they did mention it, it was to express their complete approval of the orthodox view."—Gide and Rist: A History of Economic Doctrines.

of England and substituted for the ideal of international division of labour the ideal of independent nationality, each nation devoting itself to all branches of economic activity and thus evolving its own individuality."

The wave of reaction which was thus ushered in, spread all over the world, and there is not a single country in the world to day, excepting England, which has not discarded the absolute doctrines of the classical school of Political Economy. And even in England, the movement against an attitude of indifference towards commercial and industrial organization, has gathered force and the experience of the greatest war known to history, has necessitated a revision of national economic ideas and policy.

102. Colonial Policy.—European nations, in the grip of Protection, endeavoured to stimulate manufactured exports and to discourage imports from foreign countries, except raw materials and the precious metals. They exercised a rigid control over the trade of their colonies in the West and the East and manipulated it in such a way as to benefit the mother country at the expense of their economic development. Spain monopolised the trade with her colonies in the new world and tried to prohibit other countries from participating in it. The wars of England with Spain, Holland and France during the seventeenth and eighteenth centuries were colonial and commercial wars, and the jealousies which have marred the friendly relations of European powers with one another, during recent years, have been also commercial.

The settlements, protectorates and spheres of influence of European powers in Asia, Africa and America, which are inhabited by backward races, are fields of economic exploitation, and attempts are made to keep them as preserves for the trade and industries of the mother country. But colonies where white populations have settled, can no longer be treated as plantations used to be in olden times and the American War of Independence taught a lesson which has been taken to heart. The tendency now is to draw together countries inhabited by people of the same race and bind them by ties of pre-

ferential tariffs. Large aggregates thus form customs unions and they trade freely among themselves, only penalising the trade of foreign countries.

While tariff wars are, therefore, waged with foreign and rival countries, concessions are given by friendly nations to one another. The tariff reform movement in England has thus two aspects: it is intended to protect British industries against the encroachments of foreign nations; and by it the Dominions are to be linked closely to the mother country by a scheme of preferential trade within the Empire. Mr. Joseph Chamberlain initiated the movement soon after the Boer war, and though, owing to the continued prosperity of England, in spite of or as a result of her free trade policy, it was discredited for a time, the world war added tremendous weight to the demand for Protection and Imperial consolidation. [1]

The case for British Tariff Reform and preferential trade within the Empire, stands or falls with the general theory of Protection and its applicability to the peculiar conditions of England and the other parts of the Empire. Round no subject has such bitter controversy raged as round that of the comparative merits of Free Trade and Protection. Let it be noted here that Protection as commonly understood and defined, is a systematic attempt to develop the industries of a nation by the imposition of discriminating duties on manufactured goods imported from other countries. Import and export duties are the

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1 "This essence of British Imperialism and Tariff Reform found clear expression in the speeches of Mr. Chamberlain and the writings of the Tariff Reform League. In March 1907, the London Chamber of Commerce passed the following resolution :—

"This meeting of the London Chamber of Commerce is of opinion that the present fiscal system is no longer suited to the needs of the country, and that it should be altered in such a manner as will enable us, first, to promote the commercial union of the Empire on a preferential basis, and second, to raise a proportion of our revenue from the imports of foreign manufactures, which will tend to safeguard our industries from the unfair competition of foreign countries."— See the Author's Indian Industrial and Economic Problems : Chapters I and II.

usual means employed to protect and promote industries and to retaliate upon foreign countries for their policy of restriction. Those who are opposed to Protection, insist upon the absolute freedom of trade as being essential for the development of a nation's resources and regard every interference of he State with the freedom of competition as detrimental to the best interests of the community, and every restriction of trade designed to do harm to another nation as a source of injury to one's own self as well as to others. Protection has reference, therefore, not only to restrictive import and export duties but also to other measures taken by the State such as bounties and subsidies, for the protection and encouragement of national industry and trade.

The Protectionist's potent weapon, however, is the import duty with which he fights with the foreign manufacturer and seeks to keep out his commodities in order to give a fair or favoured field to the indigenous producer. This policy is a legacy of the times of the Mercantilist regime, and the spirit of modern Protectionism is the same though the form of the protection given and the grounds on which it is given, may have slightly changed. Advocates of Protection also seek to reconcile their theory to the general development of economic doctrines and thus to defend themselves from the criticism which is regarded as justified against Mercantilism.

103. The Controversy.—Opinion on this question of choice between the *laissez faire* doctrine and benevolent State intervention for the protection of national industries, ranges over a wide area. Some pin their faith to the natural order and the beneficence of free competition; others, while accepting this doctrine in general, would relax its rigidity under certain exceptional conditions; and several maintain that under a system of natural liberty, a nation's prosperity is endangered and therefore State regulation of industry and trade are absolutely essential. While on the subject of international trade, we have shown that in theory exchange of commodities between nations, as between individuals, is advantageous

to the parties concerned, but that in applying this theory, certain peculiar circumstances have to be taken into account. As a practical measure, therefore, protection will not be a panacea for all economic ills as free trade will not prove uniformly beneficial.

Economists have taken pains to expose the common fallacies underlying Protectionism, and some of the absurdities of that position, though not obvious, are not difficult to appreciate. The faith of the free trader in his favourite doctrine is also touching, and it is necessary to find out what truth there is in the contention of the two sides. What commercial policy it is desirable to pursue in India, will best be decided in the light of this discussion. The Protectionist is wrong, it is contended, in thinking that international trade is a necessary evil and that he can restrict imports without hampering the course of exports. It is by a division of labour and specialization among nations that the production of wealth can be conducted under the most economical conditions to the benefit of humanity. Competition gives stimulus to production and enables the best that is in nations to come out. Protection levies a tribute on the whole community for the benefit of a section of it and the artificial fostering of industries is wasteful and demoralizing. It does not matter which industries flourish in a country so long as it can exchange its products for those of other nations and secure therefor a greater amount of utility. Protection dulls the edge of industry, creates harmful monopolies, engenders jealousies among nations and disturbs the peace of the world.

Protection can not certainly work wonders and it must act within certain limits of general economic advantages. The free trader, however, does not take adequate account of other factors which are concerned in the problem. The analogy of the pacifist would here be instructive. He hates war and costly armaments. His is a noble ideal of peace and harmony. But what is his experience of the hard facts of past and contemporary history? Victory goes to the biggest batallions, and small and weak nations are crushed under the heels of ambi-

tious neighbours. The League of Nations so loudly talked of, is yet to prove its existence and President Wilson's 'fourteen points' have remained on paper only as pious wishes. The political idealist cannot get rid of the fact of the existence of national sentiment and the day is yet far distant when the world will become a joint family with the nations, small and large, as loving members. Then again, the suppression or subordination of national individuality does not subserve the cause of civilization and progress, and the imposition of free trade under all conditions, cannot be universally beneficial.[1]

While complete freedom of trade and harmonious international co-operation should be the ideal of each nation, communities must enjoy the opportunities of self-expression. Every nation must develop its own resources to the best of its capacity and the world will be all the better for being constituted into a commonwealth of fully devoloped peoples. If and to what extent a nation should resort to protectionism, must be decided on a review of several factors pertaining to the political, social and economic conditions of the nation. Protection is unsuited to countries the bulk of whose exports are of an industrial character and which require free markets for their manufactures. But countries otherwise circumstanced may find it bene-

1 " On the other hand, the free traders fail to make allowance for an important element in the problem. The essence of free-trade is cosmopolitanism ; the essence of protection is nationalism. Free trade holds up to our contemplation the ultimate economic ideal, but fails adequately to reckon with actual forces. The universal republic is far in the distance, and the separate nations still have an important function to subserve in developing their own individuality and thus contributing distinctive elements to the common whole. Legitimate competition pre-supposes, as we have seen, a relative equality of conditions ; as long as the growing nations of the world are in a state of economic inequality, we must expect and not entirely disapprove the effort on the part of each to attain equality by hastening its own development. Ultimately, no doubt, patriotism will be as much of an evil as particularism has now become : but in the present stage of human progress, patriotism is a virtue. Free traders often overlook the sound kernel in what seems to be the apple of discord."

ficial to resort to protection directly in their own interests and ultimately in those of the whole world.[1]

Some of the evils which come in the wake of Protection, are patent, and freedom of exchange and of competition must be ensured as far as practicable. But competition may be unfair and the weak party has to be protected by the intervention of the State. Restriction may also become necessary for national defence, and the larger interests of the nation as a whole may require the imposition of restrictions on freedom, and the regulation of exchange. International harmony is a desirable and noble ideal, but no nation can afford to look on unconcernedly while its neighbours are arming and preparing to attack it. If another nation sets up a rival industry and promotes it by means of bounties and subsidies so as to kill your industry ultimately, you have to take measures to protect it. Bolstering up of industries in the face of natural disadvantages, is a wasteful proceeding, but stimulus given by the State by means of import duties, financial assistance, scietific advice or otherwise, may create conditions that will prove favourable to the revival of old or establishment of new industries.

104. The Indian View.—We have briefly described in the last chapter the economic revolution which took place in India in the course of the nineteenth century. England was, at the time the revolution commenced, in the grip of the protectionist and colonial policy. Heavy import duties were levied upon Indian manufactures going into England, and instead of conserving and improving the nascent industries of India, the East India company looked only to its dividends and political power. When England was protectionist, India suffered from her protectionism and when free trade became the fiscal creed of

1 "But when the economic resources of a country are not yet fully developed, it may none the less be desirable to accelerate the pace in the interests of its own immediate national progress, with the idea that the contributions of fully mature and economically well-rounded nations to the commonwealth of the globe will in the long run exceed the gain from an uneven and one-sided evolution."—Seligman.

that country, India still continued to suffer owing to unfair competition and neglect of the indigenous industries. Indian people had little voice in the governance of the country and the determination of its policy, fiscal or otherwise. Their interests could not, therefore, be safeguarded, when other interests, notably those of British manufacturers and merchants, came in conflict with them.

The failure of a few early efforts made to introduce modern industries into India with State encouragement, was enough, in the self-centred and *laissez faire* atmosphere of the time, to lend support to the theory, in its application to India, that tropical countries with their abundant raw materials and trying climate were not suited to the development of manufactures and must be content with agricultural pursuits. Direct State aid to the growth of industries would, on this theory, have been wasteful and nothing was left for the Government to do except to leave private enterprise and competition unfettered and to re move obstacles from the path of trade and to stimulate freedom of exchange. "The efforts of the State were concentrated on the improvement of communications and on facilitating the flow of trade, which continued, under the conditions above described, to consist mainly of exports of Indian raw material and imports of foreign manufactured products. But feeling which gradually arose among thoughtful men in India, that the existing conditions were unsatisfactory and were even inimical to national development, was well founded; and accentuated by the growing pressure of foreign competition, and latterly by the stress of a terrible war, has culminated in a universal demand for a complete industrial system on Western lines." [1]

To honest free trades it did not matter if one after another, Indian industries decayed and the country came to depend entirely upon agriculture. They rejoiced that the foreign trade of India steadily expanded and they pointed to it as a measure of prosperity. Opponents of free trade wanted protection, but not for Indian industries. Indian markets were to be thrown more widely open to British

1 Report of the Industrial Commission, page 2.

manufactures and closed to foreign goods. India has had no independent fiscal policy consonant with the opinion of the intelligent public. Indian thinkers enlightened by western education and equipped with a study of the history of western nations, came to reflect upon the economic condition of their country and felt convinced that India's poverty could not be remedied without a conscious effort on the part of the State to stimulate indigenous industry and Indian enterprise. France, America, Germany and Japan had adopted protection, they said, and asked why India should not do likewise.

The impression formed by an outside observer[1] like Prof. Lees Smith which has been referred to in the foot note, of Indian feeling, correctly reflects the situation. Being a confirmed believer in the doctrine of free trade, an examination of conditions in India, convinced him of the futility of protection and led him to the conclusion that 'India needs a strong free trade school among her thinkers and administrators.' Among the latter he may find a large number of free traders. But in the peculiar situation in which India stands, he hopes in vain for the establishment of a free trade school in this country among Indian thinkers. The latter appreciate the good points of the free trade position and the drawbacks of protectionism. But in their view the balance of advantage lies in protectionism judiciously applied.

Earlier Indian thinkers were strongly impressed with the advantage of free trade for India, but they found that the Indian fiscal policy was not genuine free trade and that the political and economic condition of India provided a clear case for the adoption of protection, or it came under the exceptions admitted by free traders themselves. Since 1882, the Indian tariff has been a revenue tariff and the 3½ per cent import duty on cotton piece goods

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1 "Public opinion in India is overwhelmingly protectionist. If she were granted her fiscal freedom there is no doubt that she would use it to erect a high tariff which from the nature of her trade would be directed chiefly against British goods."—H. B. Lees Smith · India and the Tariff Problem.

raised during the crisis of the war to 7½ per cent, is counterbalanced by a countervailing excise duty on cloth produced in Indian mills. No fiscal measure has evoked a stronger adverse criticism in the press and the Legislative Council, from Indians and Europeans, than this unjust impost. But the Government of India, even though sympathetic, has been helpless and the Secretary of State for India cannot resist the pressure Lancashire.[1]

105. Indian Protectionists.—Referring to the comment of the *Times of India* on Lord Salisbury's telegram asking the Indian Government to abolish the import duties on cotton, that 'the real object was to "nip in the bud" the rising factories in India—the ostensible reason assigned is free-trade,' Dadabhai Naoroji observed:—"I give credit to the Secretary of State for honesty of purpose, and take the reason itself that is given on this question, viz., free trade. I like free trade but after what I have said to-night you will easily see that free trade between England and India in a matter like this, is like a race between a starving, exhausting invalid, and a strong man with a horse to ride on. Free-trade between countries which have equal command over their own resources is one thing, but even then the Colonies snapped their fingers at all such talk. But what can India do? Before powerful English interests, India must and does go to the wall."[2]

Mr. Ranade exposed the evils of a *laissez faire* policy pursued in India and showed how State assistance was needed for the economic development of the country. His essay on Indian Political Economy, which bears distinct traces of the influence of the National School of Political Economy and in which he attempted to apply the most recent economic theories to Indian conditions, has become a classical exposition of the attitude of Indian thinkers on the subject, and his lead has been followed by students in the present generation.

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1 Author's Gokhale and Economic Reforms, pages 34–37.

2 The Poverty of India.

Mr. R. C. Dutt's historical studies and his long experience as an administrator led him to similar conclusions.[1] Speaking of the Swadeshi movement, he remarked :—"The Swadeshi movement is one which all nations on earth are seeking to adopt at the present day. Mr. Chamberlain is seeking to adopt it by a system of protection. Mr. Balfour seeks to adopt it by a scheme of retaliation. France, Germany and the United States and all the British Colonies adopt it by building up a wall of prohibitive tariffs. We have no control over our fiscal legislation; and we adopt the Swadeshi scheme, therefore, by a laudable resoulution to use our home manufactures, as far as practicable, in preference to foreign manufactures."[2]

Studying the question of the comparative merits of Free Trade and Protection in relation to India, Mr. K. T. Telang came to the following conclusion years ago:—" The net result of our investigations appears to me to be this. Objections ordinarily urged against a system of Protection to native industry, whatever their applicability in countries more advanced in modern civilization, are void of force in the circumstances of this country. Looking only at the economic aspects of the question, it appears that not merely is protection to native manufactures unobjectionable, it is even desirable in the circumstances of our country "[3] Sir Dinsha Wacha believes generally in free trade and is of opinion that " India owes its prosperity to-day entirely to free trade and nothing else." He truthfully remarks that the exports and imports of India would not have assumed the present proportions if there had not been unrestricted trade. His remarks, however, that Indian exports are surplus products, that 'India is so self-contained that it can produce all it wants and still export this immense quantity of materials' and that India would not have prospered if there had been no free trade between her and England, is not very convincing. Sir Dinsha probably refers here only to the increase in the quantity of

1 India in the Victorian Age; Chapters on History of Tariffs.

2 Speech at the Benares Industrial Conference, 1905.

3 Select Writings and Speeches, Vol. I page 177.

trade because he proceeds to observe that India's old industries require to be revived and that 'those and other new industries would necessitate protection during their infancy. I am one of the convinced advocates of Free Trade, he continues, 'but yet I consider that some protection is required for old industries to be revived or for new industries to be started.'[1]

Mr. G. V. Joshi, whose writings are full of inspiration and information and sound reasoning, agreed with Mr. Ranade, his teacher and guide, that State assistance and Protection were absolutely needed for the revival of the indigenous industries of India. He regarded the dependence of the people on agriculture as the sole means of subsistence, as the weakest point in india's economic position and pleaded for a co-ordination of agricultural and manufacturing industries with the direct help of the State. Mr. G. Subramania Iyer held similar views, and they are cleary reflected in the following quotation from his writings:—"The British nation must be told frankly that the Indian people have no doubt whatever in their own minds, that so long as the present so-called Free Trade and unequal competition continue, India has no hope of a future which will be distinguished by material prosperity."[2]

The Swadeshi movement, which has found enthusiastic advocates among the best thinkers of the country, is based upon the idea of national economic development and of Protection. If the State dose not stimulate industrial progress, the people are prepared to promote it by patronising home industries even at a sacrifice as consumers; and Government has come to recognize the utility and reasonableness of the movement.

Mr. Gokhale learned his lessons in public questions from Mr. Ranade and imbibed his spirit of patient inquiry, close study and sound reasoning. In a speech he made at Lucknow in 1907 on the Swadeshi movement, Mr. Gokhale traced the industrial decay of India and the harm which

1 Four Papers on Economics and Statistics.

2 Some Economic Aspects of British Rule in India, Page 350.

free trade had done to the country, and observed:—"It was, therefore, to the advantage of England that there should be no export or import duties, as one result of such duties was to add to the cost of the article supplied to foreign countries. But forcing this policy of free trade upon a country circumstanced as India was, was a wholly different thing and was bound to produce results of a most disastrous character." He proceeded:—"The State by a judicious system of protection, should then ensure conditions under which new infant industries can grow up. And until the new industries can stand on their own legs, it becomes the duty of the State to have a protection wall around. This is what America—already one of the richest nations in the world, and one which will yet reach the foremost place...has done, and the case is the same with France and Germany."

106. Policy for India.—We have deliberately devoted so much space to a statement of the views held on this important question by Indian economic students to show in what direction the thoughts of responsible educated Indians have flowed and how our Government is now veering to this opinion, thanks to the upheaval created by the war and to the change in the angle of vision even of British statesmen. Their economic and historical studies, have strongly impressed Indian thinkers with the beneficent efficacy of the measures which most foreign nations have taken during the last two generations to promote their industrial development, and they have been convinced that the reasoning and conclusions of the National School of Political Economy, are applicable to the conditions of India rather than the theories of natural law and of free competition of the Orthodox School. It is, therefore, futile for outside critics to hope for the rise of a free trade school among the economic students of India. The latter appreciate the free trade doctrine in the abstract and will be influenced by it only to the extent that they will desire that Protection to be adopted in this country should be of the right kind and the evils associated with it should, as far as possible, be avoided.

The subject of Protection has been often discussed in the Supreme Legislative Council, the question having been raised there by resolutions recommending the imposition of protective duties on articles like sugar and the abolition of the cotton excise duties. The strogest objection to Protection is that it usually fails to produce the results expected of it, and those who propose a specific measure of protection, have to calculate carefully the effects it is likely to have on the economic condition of the different classes of the community. Mr. Gokhale faced this question with a judicious frame of mind and weighed all the considerations that could be urged on both sides before pronouncing his opinion. When the question of the excise duties was raised in the Imperial Legislative Council in March 1911, by the Hon'ble Mr. Dadabhoy, he gave expression to his view in regard to the Free Trade *versus* Protection controversy in very lucid terms. That view. reflects and ought to reflect the considered opinion of every careful student of Indian Economics. Gokhale said :—" Coming to the larger aspect of Free Trade *versus* Protection, I would like briefly to state my position in this matter. I may say at once that by conviction I am not an upholder of Free Trade in all countries and at all times. Free Trade can no more prevail universally at present than any other noble ideal, for instance, the brotherood of man...In the same way Free Trade for all countries may be all right in theory, but it will be a long day before we shall have it in practice everywhere. And till that time comes, every country must take care of its economic interests in its own way."

Taking the word 'Protection' in its comprehensive sense, Mr. Gokhale proceeded to distinguish between the right and the wrong kind of protection :— "The right kind of protection is that under which the growing industries of a country receive the necessary stimulus and encouragement and support that they require but under which care is taken that no influential combinations, prejudicial to the interests of the general community, come into existence. The wrong kind of protection, on the other

hand, is that under which powerful influences and combinations of interests receive assistance to the prejudice of the general community, the general tax-payers of the country. And I believe that the right kind of Protection, if available, will do good to India." As will be shown later, some improvement in this respect is provided under the recent Reform Act. A new Department of Industries, under a special Member, has been created in the Government of India for stimulating industrial development and the Provinces too now have similar departments which will be under popular control.

The peculiarity of India's position to which we have adverted is that the people have no effective voice in the government of the country and in the shaping of the national policy, and the large industries and the foreign trade of the country are not in the hands of the people. There is no constitutional mechinery by which the wishes of the people can be carried out as the Government is not responsible to them. It has been pointed out how other than purely Indian interests carry weight with the Government, and the Secretary of State for India who controls the Government of India, being a member of the British Cabinet, is swayed by the pressure of capitalists and manufactures in England. If protection is, therefore, to be granted to industries, there must be a guarantee that the profits that will accrue, will remain in India and not be carried away by those who have no stake in the country. Under these circumstances, Mr. Gokhale was constrained to hold that on the whole, a policy of Free Trade, reasonably applied, was the safest policy for this country. He thought that "otherwise influential interests, influential combinations, and influential parties in England, who can have ready access to the Secretary of State, to whom we have no such access, will not fail to take the fullest advantage of the situation and this huge engine of protection, which is a vast power, will be employed, not in the interests of the people of India, but in the interests of those parties."

107. Indian Protectionism.—The Indian tariff has long been on practically a free trade basis and this policy as well as that underlying the imposition of the cotton excise duties, has been dictated by a faith in Free Trade and by the influence of British interests whose pressure was irresistible. It is the honest belief of some that free trade was the right policy for India to adopt in view of the undeveloped character of its natural resources and the poverty of its people who want a variety of cheap imports to improve their standard of living ; while others have made no secret of their opposition to Protection in India on the ground that it would be detrimental to the interests of English manufactures.

(1) We hold that in this country, a free trade policy would mean only drifting along the whirling currents of the world's economic development; and to be at the mercy of the so-called laws of nature and the deliberately planned and self-interested measures of foreign countries, is to court disaster. This policy of drift, so long pursued, has already proved harmful, and in the international struggle for economic progress, this country must arm itself with the necessary weapons.

(2) When we declare for Protection, we must not be understood to advocate an indiscriminate imposition of restrictive import duties on all manner of articles. Other countries like France and the United States of America, have had such high tariff walls erected to keep out and restrict the import of foreign manufactures. The Indian tariff must be constructed with a view to the interests of the country as a whole and to the position of the various industries in the country; and its effect on the different classes of the community, must be carefully calculated.

(3) Import duties do not always tax the pocket of the foreign manufacturers and may only mean an addition to the sacrifice exacted from the consumer. If the State has to make the tax-payers contribute more largely to the public expenditure, import and export duties may prove convenient and productive. They constitute a favourite method of raising revenue, and the free trade conscience

ought not to be shocked if such duties are levied for revenue purposes, even when they have a protective tendency.

(4) Here it must be made clear that many queer notions, full of falacious reasoning, are current in connection with this subject in India as elsewhere; and they have to be guarded against. Imports are thus often dubbed as dumping and all exports as a drain of the country's wealth. Ignorance and lack of discrimination are responsible for the popular falacies.

108. State's Attitude.—In view of the extinction of opium revenue, the Indian Finance Member was compelled to impose additional taxation in 1910, and customs duties on certain articles were raised. In that connection, Sir G. Fleetwood Wilson observed in introducing his financial statement :—" I hope I shall not be charged with framing a Swadeshi budget in the sense which may be seen indicated on Bryant and May's match boxes (Support Home Industries). I think Swadeshi is good; and if the outcome of the changes I have laid before the Council result in some encouragement to Indian industries, I for one, shall not repent it, but I would emphasise the fact that the enhanced custom duties are attributable solely to the imperative necessity of raising additional revenue."[1] He then went on to point out that even in Free Trade England considerable revenue duties had been imposed for revenue purposes and that "in countries which depend mainly on agriculture, where the population is poor and there are no large and profitable manufactures it will be long before you can dispense with customs receipts as a part of the revenue essential for the administration of the country."

Here we notice (i) the Finance Member's anxiety to disown all idea of imposing duties for protective purposes and the apologetic tone he adopts for appearing to frame a Swadeshi budget; (ii) the necessity he feels to enhance customs duties for providing a larger revenue; and (iii)

1 Speech in connection with the Financial Statement for 1910-11

his conviction that in an agricultural and backward country like India, the Government must depend, to a considerable extent, upon customs receipts as a part of its revenue. There are several directions in which more liberal expenditure is urgently needed *e. g.* expansion of education and improvement of sanitation; and more reliance will have to be placed upon this form of indirect taxation to provide the funds required. Faith in the free trade doctrine cannot, therefore, be allowed to prevent the Finance Member from imposing import and export duties, though they may have a protectionist tendency.

(5) Protective duties alone will not, however, solve the economic problem. They will assist the indigenous industries to compete with their foreign rivals, provided, of course, the latter are discouraged by the duties and retire from the field or restrict their operation in the Indian market. An attempt will have to be simultaneously made to improve the conditions in which the industries work, and to bring them up to the level of their rivals. Care must be taken to see that Protection does not entail a sacrifice on the consumers while failing, at the same time, to make national production more efficient. Protective duties will be one of the ways of ensuring the success of a new undertaking and must not be allowed to dull the edge of enterprise and efficiency.

(6) The Indian Protectionist must also ask himself the question if Protection "might not merely mean that the manufacturer who now competes with you from a distance, would transfer his activities to India and compete with you within your own boundaries?"[1] The significance of this remark deserves very careful consideration. Protectionism in India, as in other countries, is, of course, intensely national; and it would obviously insist upon purely Indian enterprise being preferentially assisted by the State so that schemes of development started by non-Indians may not take unfair advantage.

1 Sir W. Clarke: Speech in the Supreme Legislative Council, March, 1916.

That by the spread of suitable education, by a provision for scientific research, by demonstrations and by means of financial and other aid, the State can and ought to promote the industries of the nation, has been admitted even by staunch free traders. Experimental factories have been recommended and were started in the Madras Presidency. Demonstrations are being given in agricultural and manufacturing processes. New models of agricultural implements and hand-looms are being introduced. But this work must be done on a larger scale than now, and the problem of the manner in which capital may be provided to industries in the initial stages with sufficient guarantees, must be immediately tackled. Directors of Industries have to undertake this work of economic organization and they must proceed with the same enthusiasm as the Registrars of Co-operative Credit Societies have done.

(7) While the State in India follows the *laissez faire* policy in the matter of trade and industries, it has assumed in this country several functions which, in other countries, are left to private enterprise. The State here is, in many respects, more national and socialistic than is usually supposed.[1] The Indian State regards itself as a universal landlord; it is the biggest banker in the country and Lord

1 " While the problem of unemployment and the question of checking the abuse of competition are engaging public attention in England, the Government of India has long taken upon itself the study of relieving distress and saving lives in times of scarcity and famine. Railways and canals have always been practically State undertakings. Various tenancy acts and other measures have been passed to safeguard the poor tenants against the exactions of the landlords. An attempt has been made to save the rayats from the exacting clutches of the money lender."—Sir T. Morison.—See the Author's Indian Industrial and Economic Problems, page 176.

Morley once boasted of the immense business done by the India Office. The same principle has to be extended further and consciously applied to the indusrrial development of the country or lines which have now been approved by other national Governments.[1]

109. Fiscal Controversies.—(8) But the free trade conscience of the authorities in England who have the last word on these matters, and the pressure of vested interests in that country which they find irresistible, have stood in the way of the pursuit of this policy. The demand for fiscal autonomy for India is based upon this anomalous position in which the Secretary of State can override the wishes of the people of this country, strongly backed up by the Government of India and the Provincial Governments, as was done by Lord Morley. Whenever any question relating to fiscal policy or State assistance to industries, comes up before the Indian legislatures, the Government in India cannot take action which it thinks best in the interests of the country, and it has to confess frankly that "their policy is and must be the policy of His Majesty's Government."[2]

The self-governing Dominions enjoy complete freedom in this respect. Their Governments have raised tariff walls against the manufactures of England and they have been allowed to do so. In this Dependency, however, the Government is not allowed to enjoy this necessary freedom to manage its affairs in accordance with its circumstances and needs, and thus the interests of India are subordinated to other interests. This is a long-standing grievance, and none has given expression to it more bitterly than the Government of India itself. The Secretary of State, who is a member of the British Cabinet, is directly

1 "If the State can legitimately undertake from borrowed funds the construction or subsidization of railroads and canals, if it can afford to sell the fee simple of waste lands at nominal rates to European settlers on the hills, the road is certainly open for a further development of this same industrial effort on new lines."—Ranade: Eassays on Indian Economics.

2 Sir William Clarke in ths Viceregal Council.

responsible to Parliament and is subject to the influences of British party politics. Parliament itself does not take much direct interest in Indian affairs, and British manufacturers and ex-officials who are members of either House, are able to shape Indian policy. The latter can effectively thwart his measures of reform if the Secretary of State is independent-minded and progressive, and will strengthen his hands if he is opposed to progress.

As Mr. Gokhale has said, in the matter of securing this fiscal autonomy which India legitimately claims, 'there is really not much to choose between the two parties in England.' The Liberal party, wedded to free trade, feels that Indian's salvation lies in the continuance of the existing policy and it says that India would be worse off if Protection were to become the accepted policy of England. India's dependence would be intensified and her industries would become more helpless than now. On the other hand, members of the tariff reform party point to the destruction of the indigenous industries as the evil fruit of free trade, and condemn the cotton excise duties in unsparing language. They, therefore, advise the Indian people to accept their scheme of preferential trade within the Empire, though they cannot favour the idea of allowing India to frame her tariff according to her peculiar conditions and interests. The Labour party which favours India's political aspirations, is wedded to freedom of trade and is not likely to support the Indian demand in this regard, if and when it comes into power. Did India enjoy fiscal autonomy like the self-governing Dominions, her position would be enviable while she was courted in this way by two parties. As a matter of fact, however, whatever policy gets ascendancy in England, has to be the policy of India too, whether it is suited or not to her conditions. But this state of things cannot continue.

The problem of protection and fiscal autonomy for India is mixed up with the Imperial problem of preferential trade and defence. It has invested the latter question with special and immediate interest. Schemes of imperial preference and imperial reconstruction, have been discus-

however, replied that if the gold on account of the Reserve were not drawn to London, it would, in any case, have to be transferred there for the purchase of silver when the stock of rupees was depleted and gold in India could not serve the purposes of currency. It was stated that "the gold in the Reserve in India has been much in excess of the demand, that the Gold Standard Reserve has not in itself been sufficient to secure beyond question the stability of exchange, and that gold in London is more directly and indubitably effective for this purpose than gold in India."

The Gold Standard Reserve has recently increased very rapidly owing to the enormous amounts of rupees the Government had to coin to meet war expenditure incurred on account of His Majesty's Government though rising silver prices eliminated all profit on rupee coinage for some time. The necessity of earmarking gold belonging to the Currency Reserve at the Bank of England which is said to be 'equivalent to the export of gold from London to India,' because that gold so set aside against notes issued in this country, is not available to the London market, was removed by an amendment of the law, and the Secretary of State for India was empowered, by successive steps, to invest the Reserve there up to a total amount of Rs. 100 crores this limit of securities in England having been only Rs 4 crores before the out-break of the war. The total invested portion of the Paper Currency Reserve was increased by March, 1918, to Rs. 86 crores and later to nearly 100 crores as against Rs. 14 crores only before the war broke out. The Gold Standard and Paper Currency Reserves have expanded beyond all expectations in the course of the years of war, and the recommendations of the Chamberlain Commission could not give sufficient guidance to decide how they should be invested and utilised as a permanent policy.

136. Note Circulation.—Indian currency notes 'are in the form of promissory notes of the Government of India, payable in rupees to bearer on demand, and are issued in denominations of 5, 10, 50, 100, 500, 1,000, 10,000

and latterly 1 and 2½ rupees. They are issued without limit at any paper currency office against rupees or gold. For the purpose of the note system, India is divided into certain circles, and (with the exception of the 5 rupees note which was universalised outside Burma in 1903) the notes were, until 1910, legal tender only within the circle of issue.' Since then all the smaller denominations of notes up to and including those for 100 rupees, have been universalised.

An urgent demand for currency which could not be satisfied with the available stock of rupees, led the Government to think of issuing notes of very small denominations such as one rupee, in imitation of the one £ and 10 s. notes issued in England to satisfy the enormous correncу needs of the war period. The one-rupee notes were issued on 1st December, 1917 and notes of the denomination of Rs. 2½ on 2nd January, 1918. The issues were first confined to the three Presidency towns and special facilities were given for their encashment at the Post Offices. In the course of a few months their total issue reached a value of Rs. 45 lakhs, and the encashments amounted only to Rs. 11 lakhs. On 31st March 1919, the values of the 1 Rupee and 2½ Rupees notes in circulation were about 10½ crores and 1¾ crores respectively. These notes were primarily issued with the object of supplying additional currency and economising the use of silver which had become unprecedentedly dear. The above universalisation of notes has assisted to expand and popularise paper currency in India. The average gross circulation of notes was 28.58 crores in 1900–01, 45·14 crores in 1906–07, 65·62 crores in 1912–13, 64 crores in 1915–16, 101 crores in 1917-18, 133 crores in 1918-19 and the circulation exceeded 180 crores in 1919-20. The following table

shows the gross, net and the active circulation of currency notes on 31st March during the past few years:—

	Gross circulation (crores of Rs.)	Net[1] circulation (crores of Rs.)	Active circulation (crores of Rs.)
1913 ...	61 ...	56 ...	45
1914 ...	66 ...	59 ...	50
1915 ...	62 ...	56 ...	44
1916 ...	68 ...	64 ...	53
1917 ...	86 ...	82 ...	67
1918 ...	100 ...	98 ...	82
1919 ...	153 ...	150 ...	131

The expansion of the circulation of currency shows a steadily increasing amount of currency absorption. Currency is said to be absorbed when it remains in the hands of the public and is the net addition to circulation. The absorption can be found by adding together the coinage of rupees and sovereigns, the net imports of sovereigns and the issue of notes and deducting from the total the increase that may have taken place in the Reserves and the Treasury balances of Government. The following table shows the total absorption of each form of currency.-

	1913-14 (crores of Rs.)	1915-16 (crores of Rs.)	1917-18 (crores of Rs.)	1918-19 (crores of Rs.)
Gold ...	16·26	·40	11 64	5 [illegible]
Silver (rupees and half-rupees)	5 32	10 40	27 86	[illegible]
Currency Notes ...	2 87	7 87	15 [illegible]	[illegible]
Bank and other balances.	81	53	1·55	[illegible]
Total ...	33 84	18 40	53 15	[illegible]

1 The 'net' circulation is obtained by deducting from the gross amount the quantity of notes held in Reserve Treasuries. We get the active circulation if notes held in other Government Treasuries and in Presidency Bank Head Offices are further deducted. In this latter circulation notes held in Government Treasuries other than Reserve Treasuries, are not often included; but in the above figures the active circulation is arrived at after making all these deductions.

The following table gives the circulation of each denomination of note on 31st March of 1915, 1917 and 1919.

No. of Notes for Rupees.	1914	1917	1919
1	...	...	105,065,650
2–8	...	...	7,338,712
5	3,222,891	6,624,239	18,381,338
10	17,726,423	25,598,996	46,922,029
20	38,415	21,652	17,689
50	357,059	504,130	979,508
100	1,781,370	2,532,181	4,380,532
500	52,774	48,914	49,387
1,000	91,712	112,480	151,080
10,000	15,294	18,890	18,685
Total Pieces ...	23,285,938	32,460,539	183,345,110
,, Value in Rs.	66,11,75,935	86,37,51,735	153,46,47,790

137. Currency Operations.—The Government of India and the Secretary of State perform several functions which, in other countries, are performed by private and State banks. The connection between the Indian Government and movements of trade, internal and external, is very intimate and the financial operations of the Currency Department and of the India Office, are on an extensive scale. The Treasury system of Government and its management of exchange and currency, which are of the

nature of ordinary banking functions, necessitate these operations on behalf of the State. When a central or State Bank is established it can take over these functions from the hands of the Government. As matters stand, funds have to be moved from treasury to treasury and from currency chest to currency chest to meet the seasonal demand arising from the necessity of financing export trade.

"Briefly the position is that, in addition to the Treasury, Currency Reserve and Gold Standard Reserve Balances at Head-quarters, Government hold large amounts of money distributed over India in District treasuries and in currency chests, nearly every treasury having such a chest. Money comes into the Government treasuries and sub-treasuries all over the country in payment of revenue, from which it is necesssary to provide funds for expenditure at Head-quarters or in order to meet outgoings in England. Conversely, the trading firms have large remittances to make to the interior in payment for produce. Firms requiring money for this purpose constantly apply to Government for remittance orders from one place to another within the country, and Government meet their requirements so far as they can do so, by the issue at a small charge of supply bills and telegraphic transfers through treasury or currency. The amount of remittances annually effected in this way is very large. The arrangement is economical for all parties concerned as enabling these transactions to be largely effected without any actual movement of coin."[1] We propose to notice in the next Chapter, a similarly intimate relation which subsists between the operations of Government and the adjustment of the transactions of India's external trade.

So far as the Government is concerned, funds are moved from one treasury to another to supplement the moneys available there. Government likewise remits funds at a small charge, for the convenience of trade by giving them transfers on its treasuries. The paper cur-

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1 Report upon the Operations of the Currency Department during the year 1913-14.

rency reserve is kept in special 'chests' which are located at each treasury and transfers are made through these chests. If a certain treasury is short of funds, it may take the amount it requires from the currency chest, and a corresponding transfer from treasury to currency chest is made at some other place, where there are surplus funds at the time. The aggregate value of transfers 'through currency' in 1918–19, amounted to 55·13 crores of rupees and the total movement of funds through treasuries as well as through currency offices, amounted to just over 100 crores.

138. War and Currency.—So far we have given an account of the Indian currency system as it developed from stage to stage till the outbreak of the war, with occasional references to the effects of the prolonged and exhausting struggle upon that system. The war which has thrown the world's currencies and exchanges into utter confusion, did not fail to disturb and upset the Indian gold exchange standard. As the question of foreign exchange will be dealt with specifically in the next Chapter so that it may be adequately treated, we shall here pay it only a passing notice and direct attention to other salient points in the position into which Indian currency was driven by the stress of abnormal circumstances. It is, however, necessary to remark that India's currency difficulties were primarily and directly due to the valuable part the country took in the prosecution of the war and constituted her sacrifice for the Empire and her contribution to the successful termination of the struggle. The first effect of the outbreak of the war was seen in the weakening of the exchange, withdrawals of savings bank deposits, a demand for the encashment of notes and a run on Indian gold stocks. These difficulties were courageously met by Government, and public confidence was restored in a short time.

The most serious difficulty Government had to encounter, was presented by the enormous demand that arose for currency and that could not be satisfied with such large issues of rupees and notes as could be put into cir-

culation. On the one hand, imports into India were curtailed by a shortage of shipping and England's preoccupation in the production of munitions and on the other, exports had to be maintained on an extensive scale for supplying the Allied armies with food and war material. Foreign indebtedness to India due to the trade balance, could not be adequately met as gold became scarce and the situation was aggravated by the enormous disbursements which the Indian Government had to make in this country on behalf of His Majesty's Government and repayable in London. From the table given on a preceding page,[1] it will be seen how the imports of treasure into India were seriously curtailed during the war period and the natural result of this unsatisfied Indian demand and unliquidated trade balance, was that Government had to get hold of all the silver it could and coin it into rupees. The pressure upon the world's silver supplies was intense and its price steadily rose till at last it attained unprecedented heights with 89 d. an oz. in 1920. Between April 1916 and March 1919, Government purchased no less than 300 million standard ounces of silver in the open market besides the 200 million fine ounces placed by the U. S. A., under a special agreement, at the disposal of India. While on the one side, the demand for silver was abnormal, all the world over, the production of that metal averaged 178 million ounces during the four years 1914–17 as against 228 million ounces, the average of the preceding four years.

The exchange standard depends for its success upon Government's ability to maintain the artificial value of the rupee and to prevent it from rising above or falling below the fixed rate. On account of the extraordinary conditions mentioned above, Government found it impossible to work the system in the normal way. They, therefore, restricted the amount of rupees offered for sale in London and controlled the operation of exchange banks which were asked to finance the export of commodities of national importance required for the prosecution of the war so as to economise

1 Page 205.

the supply of currency. But the most serious factor which upset the exchange standard was the high price of silver combined with reduction of gold imports.. The bullion par of the rupee, that is, the price at which Government can issue rupees to the public on the basis of the fixed ratio 1 sovereign = 15 rupees, without loss, is 44 d. per ounce. This means that if silver rises above this level of sterling price, the 165 grains of silver contained in the rupee are worth more than 16 d. and Government must either suffer loss in issuing rupees or demand more in sterling for them.[1] Government was, therefore, driven to the necessity of raising the sterling value of the rupee in successive stages in response to the continued rise in the price of silver.

139. Breakdown of the Standard.—Thus the exchange standard which had been maintained by preventing the rupee from falling below 16 d., broke down, and the other contingency that silver would rise to such heights had not been contemplated. By law the rupee had been made $\frac{1}{15}$th part of the soverign or equivalent to 7·5 grains of gold, there being about 113 grains of pure gold in a sovereign. But this ratio had to be raised with the rise of silver, and the Government's rate of selling rupees by telegraphic transfer was successively enhanced, till it reached 28 d. on 12th December, 1919. Besides raising the rate of exchange, Government adopted a number of other measures to meet the situation created by dear silver and the practical cessasion of gold imports in liquidation of the trade balance.

On 29th June, 1917, the use of silver or gold coin for other than currency purposes was made illegal and on 3rd September of the same year, the export of silver coin and

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1 The bullion par of a token coin is the value of its metallic contents as distinguished from its face value. This par is 66 d. in the case of the English shilling, 60$\frac{3}{4}$ d. in that of the French five franc piece and 59$\frac{1}{4}$ d. with regard to the U. S. A. dollar. When the gold value of the token coin exceeds the value put upon it, the coin loses its token character and Government must either reduce its metallic content or raise its nominal value in response to the rise in the price of the metal.

bullion was prohibited. Notes of the denominations of Rs. 2½ and Re. 1 were issued with the view to economise silver. With the same object a new two anna nickel piece was issued at the end of March, 1918 and in September, 1919, authority was taken from the legislature for the issue of four anna and eight anna nickel pieces. The latter were not to be unlimited legal tender like the silver half-rupees and the limit was put at one rupee. To make up for the shortage of silver, Government tried to increase its holding of gold by requiring all gold imported into the country to be sold to it at a rate fixed from time to time and based upon the sterling exchange value of the rupee and irrespective of the prevailing premium on gold as compared with sterling and of the existing legal parity between the rupee and the sovereign.

To supplement the rupee and paper currency a branch of the Royal Mint was opened in Bombay in August, 1918 and as some delay was inevitable before sovereigns could be minted there, the gold Mohur of the same weight and fineness as the sovereign, was issued In April and May of 1918, a grave currency crisis seemed imminent and Government escaped from inconvertibility by the skin of its teeth. The silver supplied by the Government of the U. S. A. under the Pittman Act[1] was of the greatest use in the crisis. Before gold coinage was suspended in April, 1919, 2,110,000 mohurs and 1,295,000 sovereigns had been coined in Bombay. On account of the premium upon gold in the bazar, the sovereign selling at as much as Rs. 19, gold coins hardly circulated as currency, though in 1917 and in 1918, Government issued sovereigns and mohurs amounting in value altogether to £ 11 million. In order to supply to the public the gold for which there was an exceptionally keen demand, Government commenced, at the end of August, 1919, fortnightly sales of that metal and succeeded in bringing down its price to an appreciable extent.

1 The Act authorised the sale to other Governments of silver not exceeding 350 millions silver dollars from the holding in the dollar reserve.

140. Babington Smith Committee.—It was no defence of the exchange standard to say that under it, Government was at liberty to raise the value of the rupee as circumstances required because that value had been fixed as that of so many grains of gold, the rupee being regarded for all practical purposes as a bit of gold and not of silver. The chaotic condition of the system of currency and exchange at last appeared to call for an inquiry and a suitable remedy. On 30th May, 1919, the Secretary of State, therefore, appointed a committee with Sir Henry Babington Smith as Chairman. The Committee was asked t› examine the effect of the war on the Indian exchange and currency system and practice and upon the position of the note issue and to make recommendations as to modifications that might be thought necessary with the view to ensuring a stable gold exchange standard. The question of monetary standard was not kept open and what was desired was the stabilizing of the exchange value of the rupee at a suitable rate.

The Committee attached the greatest importance to stability of the value of the rupee and thought that if a large change had taken place in it already, 'it may be preferable to establish stability at the new level rather than to submit to the further change which is necessary for a return to the old level, especially if the former course shortens the period of uncertainty.' The alternative courses open if the rupee was not to be fixed at a high sterling rate, would have been (1) a reduction of the fineness or weight (or both) of the rupee (2) the issue of 2 or 3 rupee coins of lower proportional silver content, (3) the issue of a nickel rupee, or (4) temporary and partial inconvertibility of the note issue. The Committee rejected all these suggestions on the ground that the rupee with which the masses had become so intimately familiar, and to which they were, so to say, deeply attachd, must, in no case, be tampered with, and as regards inconvertibility, temporary or otherwise, it was simply unthinkable.

The most suitable rate of exchange was, in the opinion of the Committee, 24 d. and it was to be expressed not in

terms of sterling but in terms of gold. That is to say, the rupee was to be linked to gold and not to the pound sterling. Gold coin was not in circulation in England and Treasury notes formed the great bulk of the full legal tender currency and they were not convertible into gold. The pound sterling was therefore at a discount.[1] The American dollar was convertible into gold and New York was the only free market for gold. The relation between the gold sovereign and the gold dollar is the relation between the quantities of the metal contained in the two coins and it is expressed by saying that the sovereign = 4·8666 dollars. But in December 1919, the pound sterling was quoted at £ 3·83, which meant a depreciation of 21 per cent. The discount on the British currency has continued, though on a slightly reduced scale. In view of this depreciation and fluctuation in the value of sterling, the Committee recommended that the rupee should be linked to gold and not to sterling. The stable relation between the rupee and gold was fixed at the rate of Rs. 10 to the sovereign or of one rupee for 11·30016 grains of fine gold.

141. Chief Recommendations:—Having altered the gold value of the rupee from one fifteenth to one-tenth part of a sovereign and rendered it independent of the depreciation of the pound sterling, the Committee proceeded to make other recommendations. It wished that the import and export of gold into and from India should be freed from Government control and reiterated the opinion of the Chamberlain Commission that though the aim of the currency policy should be to give to the people the form of currency they demand, 'gold can be employed to the best advantage in

1 "The result is that there is a divergence between the value of the pound sterling and the sovereign. One hundred ounces of fine gold can be coined into 425 sovereigns; but at the quotation on 17th December, (108 s. 9 d. per oz.) 100 ounces of fine gold cost approximately £ 544 in sterling, i. e. in notes. Thus £ 1 sterling (paper) is equivalent to 425/544 or. 78 of the sovereign (gold), a discount of 22 per cent., or conversely, the sovereign (gold) is worth £ 544/425 or £ 1·28 sterling (paper), a premium of 28 per cent."—Report of Babington Smith Committee, paragraph 55.

the Government reserves where it is available for meeting the demand for foreign remittance.' The Bombay branch of the Royal Mint was to be reopened for the coinage of sovereigns and half sovereigns and the obligation of Government to give rupees for sovereigns was to be withdrawn in view of the prevailing shortage of silver though in normal times facilities were to be given for the conversion of legal tender gold into legal tender silver coin and *vice versa* The public was, of course, to be given opportunities to exchange sovereigns in their possession at the rate of Rs. 15 per sovereign at the time of the introduction of the new ratio The suggestion which had been placed before it in favour of a modification in the practice of purchasing silver for coinage and of arranging for the purchases in Bombay, which has a large bullion market, to the benefit of the Government and the advantage of Indian dealers, did not commend itself to the Committee who refused to make any recommendations in that behalf.

The Committee made important suggestions regarding the Paper Currency and Gold Standard Reserves. It may be recollected that before the war the invested or fiduciary portion of the Currency Reserve was limited to 14 crores of which 4 crores might be held in sterling securities. The expansion of the note issue and the deficiency in the supply of the precious metals during war time, compelled Government successively to raise the limits of investment and the statutory maximum reached was 120 crores, out of which 20 crores might be invested in the securities of the Indian Government. The formula laid down by the Chamberlain Commission in this behalf was that the fiduciary portion of the reserve should be fixed at 'a maximum of the amount of notes held by Government in the Reserve Treasuries, plus one-third of the net circulation.' The object to be aimed at being the elasticity of the note issue and the security of its convertibility, the Committee thought that it would be enough to put the statutory minimum for the metallic portion of the Reserve at 40 per cent. of the gross circulation. The holding of Indian securities

was to be limited to 20 crores and the balance was to be held in securities of other Governments comprised within the Empire, not more than 10 crores of this holding having more than one year's maturity and all being redeemable at a fixed date. The existing permissive maximum of 120 crores was to be retained for a limited period.

The higher rate of exchange would necessitate the revaluation of sterling investments and gold in the Reserve at 2 s. to the rupee, and the loss resulting from the depreciation could be made good from savings due to the rise in exchange. To meet the reasonable demand for additional currency provision was to be made for the issue of notes up to 5 crores over and above the normal fiduciary issue as loans to the Presidency Banks on the security of export bills. As regards the public grievance about the location of a part of the Reserve in London, it was recommended that the silver and gold in the Reserve should be held in India except for transitory purposes. No limit could be fixed to the accumulation of the Gold Standard Reserve and it was suggested that when practicable it should be held largely in the form of gold, securities with early dates of maturity being selected for the invested part of it in order to keep it as liquid as possible. A portion of the gold in the Reserve not exceeding one half was to be held in India.

142. Criticism:—It will be seen that several of the recommendations of the Babington Smith Committee were designed to improve the Indian currency system consistently with the maintenance of the exchange standard and were calculated to remove the grievances of the public and to meet the wishes of critics in many important respects. Leaving the question of the high rate of exchange to be discussed in the next Chapter, we may here say that the alteration of India's monetary standard by the executive action of Government and the general working of the gold exchange standard during and after the War, have caused deep and widespread dissatisfaction in the country. Mr. Dalal, the only Indian member of the Babington Smith Committee, could not agree with his colleagues

on the fundamental questions at issue. He strongly protested against the change in India's money standard[1] which was the legal ratio of 1 : 15 between the sovereign and the rupee, which change he characterised as "a veritable revolution in her currency arrangements which must cause a widespread and lasting hardship amongst the masses of the people of India."

Mr. Dalal further says that it was not also necessary to alter the currency standard and that the high price of silver was not a sufficient justification. He thinks that the large demand for currency in India was caused mainly 'by the acceptance in London of payments due to India in the form of sterling which could not be transmitted to India by the usual methods.' The indebtedness of foreign nations to India could have been liquidated by the floatation of loans in them if not by the import of the precious metals. Great Britain paid for U. S. A. imports by the export of gold and of American securities held by British citizens and by floating loans in America. The same procedure could have been followed with reference to India's favourable trade balance.[2] But no such steps were thought of and the action of the Indian Government in prohibiting the exports of silver, the exclusion of the Indian stocks of that metal from the world's markets and the enhancement of the rate of exchange, drove silver prices to high levels. The mere fact of India selling her silver would, in Mr. Dalal's opinion, have shaken the strength of the silver market, and the sale of its silver currency by the Government of the U. S. A. in similar circumstances, lends support to his contention.

1 "In contradistinction to this legally established standard the gold exchange standard has no validity. It has not been clearly and explicitly defined. The authorities who conduct it exercise the widest discretion in its regulation but hitherto have been careful to respect the legally constituted ratio between rupees and the sovereign."

2 "Still there is little room for doubt that, during the war, British Government loans could have been successfully floated in India on a very large scale on the same lines and terms as some of those publicly floated in the U. S. A. to meet the expenditure of the Imperial Government."

The extraordinarily high prices of silver threatened the token currencies in England, France and other countries and their Governments met the contingency by issuing notes of small denominations and by preparing to debase the silver coins or manufacture new coins. It had been proposed, and the proposal was approved by Mr. Dalal, that while the existing silver rupee of 165 grains of fine silver should be continued full legal tender, its further coinage should be stopped and as long as silver prices ruled high, rendering the bullion value of the rupee higher than its face value, Government should issue 2 rupee silver coins of reduced fineness and make them legal tender, making it impossible for the new currency to go to the melting pot. If the choice lies between altering the standard of value and the metallic contents of a token coin, the latter alternative is certainly preferable, because it is less disturbing in its effects. And this method has been followed in several countries during the war. The rupee is, after all, a token coin, and a change in its silver content would not have been a serious matter.[1] But the Government was overwhelmed with apprehensions regarding the political effects of the measure and the Committee on Currencey and Finance regarded the weight of its opinion as decisive. The objection was certainly not entirely baseless and the adoption of the measure, often erroneously characterised as 'debasement,' was surrounded with administrative difficulties, particulary the prospect of the new coin driving the full-weight rupee out of circulation. But as a matter of fact, Government faced worse difficulties and need not have shied at the proposal to issue a new token coin.

1 See the Author's Currency Reform in India.

CHAPTER XI.

Foreign Exchange and Finance.

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143. Mechanism of Exchange.—If full payment in gold or silver was to be made to foreign countries for commodities imported from them and if they were expected to make remittances of the precious metals for articles exported to them, it would be a troublesome and wasteful proceeding. As the paper money of one country will not be accepted for payment of debts in another, the precious metals will have to pass to and fro between nations to settle their indebtedness to one another. But the trouble is avoided and the expense is saved by the mechanism of bills of exchange which enable international indebtedness to be adjusted very easily. Importers who have to make remittances abroad, purchase the orders issued by exporters of commodities to foreign countries to their customers and send them to their creditors who realise the money from people on whom the bills are drawn and who are

standard and token coins issued and regulated by government authority had not yet arisen. Transactions were carried on, values estimated, and bargains struck in terms of the 'Kahapana', a square copper coin weighing about 146 grains, and guaranteed as to weight and fineness by punch marks made by private individuals'.[1] No silver coins appear to have been used and gold coins are rare. In the centuries just preceding and succeeding the Christian era, we have silver and bronze coins punch-marked, cast and struck on one side only.[2]

The Arthashastra of Chanakya refers to the Superintendent of the Royal Mint (Lakshnadhyaksha), and to the Examiner of Coins (Rupadarsha) whose duty it was to 'regulate currency both as a medium of exchange (vyavaharikim) and as legal tender (koshapraveshyam)'. Silver coins (rupyarupa) are made up of four parts of copper and one-sixteenth part of any of the other inferior metals. Counterfeiting is visited with appropriate punishments. It will thus be seen that the transition from barter to a money economy and to a system or systems of mints and currencies, was slowly accomplished by the early centuries of the Christian era though barter and rude coinage survived in parts of the country even to later times

119. Pre-British Period.—The Mahomedan kings of Delhi in the Middle Ages, had their own distinctive coins and 'Altamish introduced a purely Arabic coinage and made the silver tanka of 175 grains, the ancestor of the rupee, his standard.'[3] Mahammad Taghluk improved the gold and silver coinage and introduced a token currency of copper which, however, he had to recall on account of the ease with which it lent itself to counterfeiting. Akbar improved the currency still further and it was maintained in the time of his successors. Abul Fazl describes Akbar's rupee as 'a silver coin of a round form in weight 11¼ Mashas' and states that it was first introduced in the time of Sheer Khan and that it was revived and made more pure in his master's reign. He likewise describes gold coins like the Mohur, this coin being round in form,

1 Rhys Davids : Budhist India. 2 Rapson : Ancient India.

3 See Lane Poole: Medieval India.

weighing 11 Mashas and being valued at 9 rupees The principal copper coin was the Dam, formerly called the 'Pysah' and in value the 40th part of a Rupee. Gold coins were struck at four places in the Empire, in Bengal and at Agra, Cabul and Ahmedabad. Silver and copper were coined at ten other cities besides, while copper alone at many more. As regards the use of the different coins, Abul Fazl significantly remarks :—" A great deal of traffic is carried on in this flourishing country in Mohurs as well as in Rupees and Dams." The danger of clipt and light-weight coins defrauding the State treasury was serious and the weights below which coins were no longer legal tender, were decreed by Government.

The Mahomedan rulers of central and southern India followed the example of the Delhi emperors and issued gold and silver coins. Under Mahratta rule the gold Hon was the standard coin and grants were made and assessments of the land tax fixed in terms of the gold coinage. The rupee coins of the Mahomedan kingdoms, however, circulated widely in the seventeenth century and the rupee soon came to have an extensive vogue. It is well known that even in very old times, the exports of India were paid for by foreign countries in gold, and Roman coins have been found in large quantities in the Madras Presidency. There is no wonder if in a large continent like India, divided into numerous kingdoms and principalities, hundreds of different coins should have been issued and been simultaneously in circulation. The varying relative values of these coins[1] must have caused much uncertainty and in-

1 " The policy of one mint and one coin current all over the realm, with which we have become so familiar in the present century, did not find much practical recognition in this or any other part of India. Mr. Macleod in his work on " Indian Currency" mentions that when British Rule commenced, there were no less than nine hundred and ninety-four (994) different coins of gold and silver current in India. In an official table published for the guidance of the civil courts in the Bombay Presidency the names of no less than thirty-eight gold coins and over one hundred and twenty-seven silver coins are mentioned as still so far current in different parts of this Presidency as to make it worthwhile to give the relative intrinsic values of these local currencies in exchange for the Queen's coin".—Ranade : Currencies and Mints under Mahratta Rule.

convenience in commercial transactions, but the intrinsic values of the chief coins were probably well known to experts and business men.

To mint coins was a highly cherished privilege of sovereignty and was exercised by petty rulers as much as by powerful kings Several of the coins bore the effigies of the rulers and the distinctive names of the places where they were minted Under the Mahrattas, in the middle of the eighteenth century, manufacturers of money were licensed by the Government on payment of a fee, and the weight, quality and denomination were fixed. The ratio of the Delhi gold Mohur to the rupee was 1 to 15½. The mints were not open to private coinage in the sense in which the expression is understood, but the supply must have been well adjusted to the demand.

It appears that the silver rupee coin circulated very largely in Northern India and the gold mohur was only a supplementary coin there. The position was reversed in Southern India where the gold coin enjoyed the widest circulation and the silver coins were only subsidiary to it. As the power of the Moguls did not spread to southern India, their currency system was not adopted in those parts. The landmarks in the history of Indian currency since the beginning of the last century will be indicated below. From them it will be seen that whereas under the Hindu and Mahomedan rulers, both gold and silver coins circulated freely in the country without an attempt on the part of Government to fix the relative values of the two, the silver rupee is now the main coin of the whole country, supplemented by paper currency and the gold sovereign, for the minting of which arrangements were only recently made in Bombay and whose relation to the silver coin is fixed by law.

120. Under East India Company.—The confusion caused by the multiplicity and variety of coins led the East India Company which had its own distinctive rupees[1]

1 The first British Mint in India was established in Bombay in 1671 and the East India Company, as it extended its territorial authority, took up the indigenous rupee as the basis of its own silver currency.

coined in Bombay and Madras, to think of making the currency uniform, and though in 1806 the Directors declared that while "fully satisfied of the propriety of the silver rupee being the principal measure of value and the money of account," they did not wish "to introduce a silver currency to the exclusion of the gold." only twelve years later, the silver rupee was substituted for the gold pagoda as the standard coin of the Madras Presidency, where gold coins had, till that time, been the principal currency and money of account. There had been four different rupees in circulation, those of Murshidabad, Furrukhabad, Arcot and Surat, besides the gold Mohur and the pagoda worth respectively Rs. 15 and Rs 3½. Efforts were steadily made to unify the currency and they at last culminated in the demonetization of gold and the establishment of the rupee as the only legal money.

In 1835, the present siver rupee weighing 180 grains, $\frac{11}{12}$ths fine, was formally established as the standard coin in the whole of British India, and gold was demonetised. It was enacted that 'no gold coin shall henceforward be a legal tender of payment in any of the territories of the East India Company.' But by a proclamation of 1841, Government authorised officers in charge of public treasuries freely to receive gold mohurs at fixed rates which represented a ratio of 15 to 1 between silver and gold. By the middle of the last century gold depreciated owing to the discoveries of the yellow metal in Australia, and Government in India became embarrassed when the public took advantage of the divergence between the legal and the market ratios of gold to silver by presenting gold at the treasuries and exchanging it for a larger value in silver. A notification was, therefore, issued towards the close of 1852, declaring that on and after 1st January 1853, "no gold coin will be received on account of payment due or in any way to be made, to the Government in any public treasury within the territories of the East India Company."

The 'battle of the standards' was fought on the Indian soil as on that of Europe, and the difficulty of adjusting

the ratio of gold to silver was experienced in India as elsewhere. Both gold and silver had their advocates in India, and there was a division of opinion among officials of Government. Merchants in India, Indian and European, memorialised the Government of India for a gold currency, and the latter were prepared to make sovereigns and half sovereigns legal tender at the rate of one sovereign for 10 rupees. Officers like Sir Charles Trevelyan, Finance Member of the Government of India from 1863 to 1865, like Sir Richard Temple a few years later, strongly supported the proposal of a gold currency linked up to the rupee at a fixed rate. The Mansfield Commission appointed to inquire into the question, likewise warmly recommended the making of gold coins legal tender money, in 1866. The Imperial Government, however, did not approve of the proposal and only authorised the receipt of gold coins in public treasuries as used to be done before 1853, at fixed rates which were slightly raised two years later.

121. Bimetallic System.—Fluctuations in the relative values of gold and silver in European countries and America which were on a bimetallic basis, caused great embarrassment by the influx now of one metal and now of the other. The value of silver relatively to gold began to fall and as some European countries followed England's lead in adopting the gold standard, the other nations of Europe combined in the Latin Union to protect themselves from the danger of being overflooded with the cheap white metal. The value of silver which was $60\frac{5}{16}$d. per. oz. in 1872, came down to $53\frac{1}{8}$d. in 1876, to $50\frac{9}{16}$d. in 1883, to $42\frac{7}{8}$d. in 1888 and to $35\frac{1}{16}$ in 1893. The countries of the Latin Union were at last compelled to abandon the bimetallic system and to give up the free coinage of silver. Thus came to be established the 'limping' standard under which though silver coins are full legal tender, there is no free coinage and they are virtually token money. This meant the triumph of the gold standard, which has now been adopted in all countries of the world except China.

Under bimetallism, both gold and silver are standards of value, and the relation between the values of the two is

fixed by law from time to time. Mints are open to the coinage of both the metals and both are full legal tender. The market rates of gold and silver fluctuate while the legal rates remain fixed, and for the time being, the overvalued metal drives the undervalued metal out of circulation and out of the country. If bimetallism were adopted by the principal nations of the world, the fluctuations and the embarrassment would be considerably minimised. But no agreement could be arrived at on this question, the monetary conferences which were held in 1878, 1881 and in 1892, to settle the problem, proved abortive and nations had to adopt the gold standard accompanied by a legal tender silver currency, whose parity with gold was maintained by State regulation of the coinage of the white metal.

122. Difficulties in India.—The Indian Government continued to be pressed for a gold currency and at last in 1874, it declared itself unable to recognize gold as a standard of value in this country. From 1835 to 1899 the Indian currency rested on a silver basis, but the circumstances which ultimately forced Government to adopt the gold standard were peculiar. India is a debtor country. Its Government has to remit to England every year crores of rupees for meeting the Home Charges, its expenditure in London on account of interest, pensions, salaries and so forth. The revenue of Government is collected in silver rupees and the charges in England must be met in gold. When silver was demonetised by European countries and its supplies were larger than the demand, the value of the white metal expressed in gold steadily fell. The lower the gold value of silver, the larger was the amount of rupees the Government had to find to meet the Home Charges. In fact, the drop of one penny in this exchange value, added more than one crore to the amount of rupees that had to be provided for procuring the necessary amount of gold to meet the Home Charges in England.[1]

1 "To make this point clearer, it may be mentioned that in 1873-74, before the fall in the exchange value of the rupee commenced, the amount of Home remittance in lieu of payments the Secretary of State makes in England on behalf of the Indian Government, of such charges

Besides the Government, merchants and others who had to make remittances to England, sustained a loss and had to suffer from the incovenience of instability. The Government of India felt the necessity of adopting the gold standard and the introduction of a gold currency, and the temporary suspension of the compulsory coinage of silver by Indian mints, had been suggested to them; "but the main object of such attempts as were made by that Government to deal with the subject between 1878 and 1892, was not to effect a change in standard of India but to facilitate an international agreement which might cause a rise in the gold price of silver, and thus diminish the inconvenience resulting from the retention of a silver standard in India." The United States of America too had to face the problem of depreciating silver and attempts were made in that country by the Bland Allison and Sherman Acts to maintain the price of the white metal by the Government's continuous purchase and coinage of fixed quantities of that metal.

In the meanwhile in 1876, commercial bodies in India had begun to urge upon Government the need of suspending the coinage of silver temporarily with a view to prevent the future fall of the rupee. But Government did not countenance the proposal on the ground that interference with the Indian standard of value had not been called for. Only two years later, however they made a representation to the Secretary of State pointing out the difficulties and losses entailed upon them and on the country by the fall of silver and recommending the establishment of a gold standard. But Her Majesty's Treasury was opposed to the

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as interest on debt raised in England, civil and military pensions, salaries, the price of stores etc., was about £ 13 millions which at a rate of exchange of 1 s. 10·351 d. was represented by Rs. 14,26,57,000. During 1892-93 the amount remitted was £ 16½ millions which at the average rate of exchange in that year, viz. 1 s. 2·985 d. required a payment of Rs. 26,47,84,150. If this had been remitted at the rate of exchange of the year 1873-74, it would have needed only Rs. 17,75,19,200, which means that there was a loss of Rs. 8,72,64,950 entailed upon India by the falling exchange in that year."—Gokhale and Economic Reforms, page 28.

change and the Imperial Government would not sanction it. The twenty years' period between 1873 and 1893 has been divided into three stages: (1) 1873 to 1878, when plans about the suspension of rupee coinage and introduction of a gold currency were discussed; (2) 1878 to 1892, the year of the calling of the Brussels International Monetary Conference, during which efforts were made to secure an international bimetallic agreement and (3) 1892 to the closing of Indian mints to free coinage when hopes about bimetallism had melted away.

When the rehabilitation of silver by an agreement among nations proved hopeless, mainly owing to the hostility of the British Government, the Government of India at last proposed at once to close their mints to the free coinage of silver and to make arrangements for the introduction of a gold standard. In a telegram to the Secretary of State, of 22nd January 1893, the Government of India explained their proposal by saying that they would issue a notification declaring that English gold coins would be legal tender in India at a rate of not less than 18 d. per rupee and that an interval of time should elapse between the mints being closed and any attempt being made to coin gold in India. The hands of the Government were strengthened by a powerful agitation that was carried on in India under the auspices of the Currency Reform Association led by Mr. J. Mackay (now Lord Inchcape) in favour of currency reform though there was a large body of opinion opposed to the proposed change.

123. Herschell and Fowler Committees.—The Secretary of State for India referred the proposal to a committee presided over by Lord Herschell, which reported in favour of the suggestions of the Indian Government with slight modifications. The Committee recommended that though the mints were to be closed to free coinage, they were to be used for coining rupees in exchange for gold at the rate of 16 d. to the rupee. And gold was to be received at the public treasuries in payment of public dues at the same rate. These provisions were

intended to render the transition in the development of the currency system smooth and as free from sudden disturbance as possible. The Committee could find no alternative to the closing of the mints for freeing the Indian Government from its financial difficulties. In accordance with the recommendations of the Committee, Act No. VIII of 1893 was passed providing for the closing of the Indian mints to the "free coinage" of both gold and silver, however, reserving power to Government to coin rupees on its own account. By notifications arrangements were made for the receipt of gold at the Indian mints in exchange for rupees at a rate of 16 d. per rupee. When the question was raised in 1897 whether the Indian Government would join France and the United States of America in following a common policy of free coinage of silver and gold at a ratio of 15½ to 1, the Government recorded the decided opinion that it would be unwise to do so in view of the stability which the Indian currency and exchange system had been steadily attaining after a great deal of uncertainty and trouble.

In 1898, the Secretary of State for India appointed the Fowler Committee to consider and report upon certain proposals which the Government of India had made with the object of making effective the policy adopted in 1893. At this time the currency position was as follows :—"(1) Gold is not legal tender in India though the Government will receive it in the payment of public dues; (2) that the rupee remains by law the only coin in which other than small payments can be made ; (3) but that the Indian Government has declared (until further notice) a rate at which rupees can be purchased for gold coin or bullion—such rate serving to determine the maximum limit to which the sterling exchange can rise under present arrangements."[1]

The rate of exchange adopted on the recommendation of the Herschell Committee, had been only tentative and it was to be definitely fixed in the light of experience. Owing to the contraction of rupee currency the rate of

1 Report of the Fowler Committee.

exchange had slowly mounted up. The average rate was 14·5 d. in 1893, 13·1 d. in 1894, 13·6 in 1895, 14·4 in 1896, 15·4 in 1897, and 15·9 in 1898. But uncertainty about the future still hung over trade and banking and it was felt that the time had come for putting an end to the period of transition. The Indian Government, therefore, proposed to create a gold reserve by borrowing, to withdraw from circulation and melt down rupees so as to raise the value of the rupee to 16 d. and to add to the gold reserve by the sale of bullion obtained by melting rupees, all these suggestions being designed to promote the establishment of an effective gold standard.

Widely divergent views were held as to the wisdom and justice of the policy adopted in 1893, and the several interests involved, looked at the question from different points of view. The British Treasury, to whom the question had been referred by the Secretary of State on the receipt of proposals from the Indian Government, had consistently set its face, in 1879 and in 1886, against tampering with the currency and making it artificial. It had been pointed out that whatever relief would be secured by Government would be at the expense of the Indian taxpayer. Public opinion in India had been opposed to the policy of 1893 and all interference with the country's currency had been deprecated as unnecessary and harmful.

124. Currency Schemes.—The problem of Indian currency and exchange had been debated for nearly forty years; nor is it regarded as solved even now. But in 1898, Government had to make up its mind as to what system it would finally adopt. On the one hand, (1) the need of stability of exchange as a condition of smooth and prosperous trade, (2) the necessity of preventing the losses which a falling exchange entailed on Government, and (3) the necessity of establishing the same standard as prevailed in England and other countries with which Indian's trade chiefly lay, were urged in favour of the adoption of a gold standard and in justification of the closing of mints to the free coinage of silver. It was pointed out, on the other

hand, (1) that silver monometallism was the best policy for India as it had worked satisfactorily, on the whole, and prices had remained steady under it, (2) that Government's exchange difficulty could be met by retrenchment and economy and the systematic curtailment of India's gold obligations e. g. home charges, (3) that a falling exchange had stimulated trade and promoted prosperity and (4) that an artificial currency system was undesirable, especially because it meant the transference of the loss of the State indirectly to the shoulders of the people.

All these conflicting views were placed by witnesses before the Fowler Committee which had to decide whether India should revert to the old system or follow up the arrangements initiated in 1893, as well as to examine the Indian Government's scheme and to recommend a satisfactory method of stabilizing the exchange value of the rupee. On a review of the whole position and a careful consideration of the divergent opinions submitted to it, the Committee declared itself in favour of the effective establishment of a gold standard to be accompanied, of course, by a gold currency, the British sovereign being declared a legal tender along with the rupee at the rate of 1 sovereign = 15 rupees. The restrictive legislation of 1893 and other causes had pushed up the gold price of the rupee and, therefore, the exchange to 16 d. at which the Committee stated that it should be fixed. The rupee would now become a token coin, but the Committee could not recommend the imposition of a limit on the amount for which rupees should constitute a legal tender. The profit on the coinage of rupees, which was to be undertaken when the proportion of gold in the currency exceeded the demand, was to be accumulated in a special reserve fund. This profit would represent the difference between the intrinsic metallic value of the rupee and its artificial value. These recommendations were accepted in their entirety by the Indian authorities and steps were immediately taken to carry them out.

The Fowler Committee, of course, rejected the Government of India's proposal regarding the melting of rupees and constituting a gold reserve out of borrowings. But the most important schemes submitted to it were the Lindsay and Probyn schemes which have special interest, in particular the proposals of Mr. Lindsay, because they formed the basis and the inspiration for the gold exchange standard which has been ultimately evolved out of the Fowler Committee's recommendations in favour of a gold standard accompanied by a gold currency. The essence of the Lindsay plan was the constitution of a gold reserve fund located in gold in London and in rupees in India out of which drafts to be sold either way by Government were, to be met. The drafts were to be offered at rates just below and above the gold import and export points to obviate the remittance of gold to and from India. Gold was to be used not for internal currency but only for settling India's balance of foreign indebtedness when necessary. The plan proposed by Mr. Lesley Probyn was also intended to do away with the necessity of a gold currency. He would issue a gold note of Rs. 10,000 denomination and keep the gold reserve in India. The gold was not to be coined but was to remain in the form of bars. The Fowler Committee approved of neither scheme and held that " the habit of hoarding does not present such practical difficulties as to justify a permanent refusal to allow India to possess the normal accompaniment of a gold standard, namely, a gold currency."

125. Opposition to Change of Standard.—It may be generally observed that the currency policy recommended by the Fowler Committee has been admitted, on the whole, to have been a sound policy, though the steps which led to it, were partly the result of a panic, partly of helpless drifting and partly of concentration of attention only on one aspect of the problem viz., Government's financial embarrassment caused by a falling exchange and the loss incurred by those who had to make remittances abroad. It is interesting to notice the strong views expressed by financial experts and high Government offi-

cials before 1893 against any tampering with the Indian silver standard.

Mr. R. Hardy, Treasurer and Secretary, Bank of Bengal, stated in a memorandum, dated 22nd May, 1886:—"In conclusion, I would observe that the whole position of India, as a nation, in regard to the silver question, may be stated broadly as follows:—The foreign trade of India consists of exports of merchandise: the exports pay not only for India's gold obligations abroad, but for her imports of merchandise as well, and a balance always remains in her favour. This balance she takes in silver. If silver is cheap she gets more of the metal than she would get if it were not so cheap, and I hold that it is most to her advantage to get more, than less silver. It, moreover, appears obvious that the pressure of the gold payments upon India as a whole, depends not upon the price of silver, but upon the gold prices realised for the merchandise exported to meet such gold payments. That the Government is in the position of receiving its revenue in silver, it may be asserted, does not affect that, the national aspect of the question, and in my view it is, therefore, clearly the duty of Government to meet any financial necessity arising from a fall in the exchange, either by increasing taxation or by reducing expenditure, or by both. To attempt to meet the difficulty by taking the extreme measure of changing the standard of value is, I think, out of the question, and I express this view, holding the opinion that the value of silver will probably yet fall considerably."[1]

Referring to Lieutenant-General Strachey's proposal to give India a gold standard without a gold coinage, provision being made for the expansion of the currency to meet requirements of trade, Mr. J. Westland, Controller and Auditor General, and afterwards Finance Member, Government of India, wrote in 1886:—"I am inclined rather to say that greater facility in meeting its home obligations is the *only* interest that India has in a gold standard; and if a silver standard is better with

1 See Selection from Papers relating to the Introduction of a Gold Currency in India, pages 433 to 460.

respect to all its other relations and concerns, I cannot concede that the question connected with its home obligation is of such tremendous importance as to overwhelm all others. The fact that our European officials, regarding our connection with India as only temporary look to the gold standard of the country, where we ultimately intend to live, as preferable, for our own purposes, to the silver standard of the country where we earn our living, is somewhat apt to increase in our eyes the importance of remittance from India to England. But if we want to stay in India all our lives, and our children after us, as the infinite majority of people dwelling in India do, I doubt if we would look upon a manifestly appreciating standard as more desirable than one which has been fairly steady in the past, so far as absolute value can be measured........."

Mr. D. Barbour, Secretary to the Government of India, Department of Finance and Commerce, and later, also Finance Member in the Government of India, held identical views and maintained:—"The loss or gain therefore to India, as distinguished from the Government of India, in respect of her permanent gold obligations, depends entirely on the gold prices which she can obtain for her exports. No manipulation of the Indian currency can possibly affect the gold prices of Indian exports and therefore General Strachey's proposal could in no case give any relief to India as a country whatever effect it might have on the financial position of Government. Just as much as Government gained, just so much must the Indian people lose."

There was a large body of people in India holding similar views[1] and they contended that (1) the exchange difficulty could have been and ought to have been met by economy and a reduction in the gold obligations of Government; (2) that it was not necessary to alter the standard of value as an artificial increase in the value of the rupee was only another way of imposing additional taxation upon the people in an indirect way; (3) that

1 See Appendices to the Report of the Fowler Committee, pages 47 to 65.

there was no room for the reduction of expenditure was not believed by the public which was pressing for economy and for justice being done to India in the matter of finanical burdens; (4) the plea that the limits of taxation had been reached was not also accepted as Government was not prepared to impose import duties on British piece goods for fear of Lancashire opposition. The argument that a falling and low exchange stimulated exports and promoted India's prosperity, ought not indeed to be carried too far because a country soon adjusts itself to a low rate and exchange cannot go on falling indefinitely. But as Prof. Kemmerer concludes, 'the actual development of the merchandise import and export trade, therefore, during the twenty years prior to the Herschell Committee's Report, had hardly been such as to justify a strong condemnation of the silver standard'.[1] And for years, the gold prices of India's chief imports had been declining more rapidly than the gold value of the rupee, and India had been actually receiving from Europe larger quantities of these goods on the average per rupee.

126. Change Effected.—The financial embarrassments of Government and the inconvenience and loss suffered by non-official and official Europeans, however, proved an irresistible argument in favour of the adoption of the suggestion to make the rupees token coins and, by restricting their out-put, to raise their exchange value to 16d. per rupee. In 1899 the Government gave up its attitude of hesitancy and boldly embarked upon a policy of a gold standard to be ultimately accompanied by a gold currency. (1) Sovereigns and half sovereigns were made legal tender; (2) active steps were taken to open a mint for the coinage of gold in India, though the scheme was dropped in 1902 to be revived only ten years later;(3) profits on the coinage of rupees were being accumulated in a special gold reserve to be used for the support of exchange; (4) efforts were made to induce people to use sovereigns as a medium of circulation. But very soon Government policy began to drift, the ideal recommended by the Fowler

1 Modern Currency Reforms, page 28

Committee was put out of sight, and India came to have a gold exchange standard instead of a genuine gold standard.

Government departed in several important particulars from the lines of policy laid down by the Fowler Committee. "The investment of the Gold Standard Reserve in securities in London, the dropping of the scheme for a gold mint in India, the practice of selling Council Drafts at something below gold point against the Currency Reserve, the establishment of the silver branch of the Gold Standard Reserve, the diversion in 1907 of money from that Reserve for capital expenditure and its use in 1908 for meeting drafts sold by Government in India on London to private traders, are all examples of divergences from the scheme adumbrated by the Committee.........The system actually in operation has accordingly never been deliberately adopted as a consistent whole, nor do the authorities themselves appear always to have had a clear idea of the final object to be attained. To a great extent this system is the result of a series of experiments."[1]

127. Gold Exchange Standard.—The goal of a gold standard accompanied by a gold currency recommended by the Fowler Committee and accepted by the Indian Government, grew dimmer and dimmer from the view of the authorities who managed the Indian system; and they discovered in a few years that they had, unconsciously as it were, established in this country a scientifically perfect and practically faultless system of currency and exchange, rightly or wrongly called the 'gold exchange standard'. Under that system, gold is the standard of value, and though gold coins, viz. the sovereigns, are legal tender, they do not form an essential feature of the system. The principal currency is the token silver rupee which is unlimited legal tender and which there is no obligation on the part of the State to redeem in the standard metal. The relation of the rupee to gold is fixed independently of its intrinsic worth as silver and the coin is just a bit of gold but not legally redeemable in gold. Currency notes

1 See Chamberlain Commission's Report, page 13.

are encashable only in token rupees. The obligation of Government is restricted to giving token rupees for gold at the fixed rate and to provide gold or sterling drafts only when the exchange value of the rupee, artificially fixed at a high level, goes below the gold export point. The Gold Standard Reserve located in London is the fund built out of profits on rupee coinage, and is the fund out of which the sterling drafts sold to the public are paid. Gold not in circulation but for the foreign-exchange, is the standard of value and therefore the system is called the gold exchange standard.

Several eminent economists like Professors Keynes and Spalding and high Indian Officials regard the exchange standard as an ideal system of currency, and the Indian discovery of a cheap and efficient system has been imitated in such countries as the Philipines, Straits Settlements, Porto Rico and Mexico; and it is stated that the system prevails in practice, if not in theory, in countries like Japan. The exchange standard system, it is said, economises gold by dispensing with its use for internal circulation and by satisfying currency needs with silver and paper money based upon gold which becomes international currency and which is available when required for remittance abroad. In gold standard countries like England, it is urged, gold coins form but an infinitesimal part of the money in circulation which consists of cheques and notes. The Indian system is, therefore, described as 'an improved gold standard' which will come more and more into favour as its utitily is better appreciated ; and in fact, it is regarded as an ideal currency system for nations to adopt. The Chamberlain Commission of 1913, which was appointed to examine and report upon the many severe criticisms which had been heaped upon the policy into which the Indian Government had drifted, had nothing but commendation for the exchange standard system. It summed up its view thus:—"Our view is that India neither demands nor requires gold coins to any considerable extent for purposes of circulation (as opposed to

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saving or hoarding), that the most generally suitable media of internal circulation in India are at present rupees and notes, and that the Government should, as opportunity may offer, encourage notes, while providing—and this is the cardinal feature of the whole system—absolute security for the convertibility into sterling of so much of the internal currency as may at any moment be required for the settlement of India's external obligations."[1]

128. Criticism.—A dispassionate consideration of the above view of the supporters of the exchange standard would lead to the conclusion that it contains a good deal of truth and sound sense. Economy of the precious metals is a desirable thing and the waste of gold used for currency must be prevented. But we cannot endorse the statement that the exchange standard is an ideal standard, particularly when it is forced upon a country by circumstances or by political authority. The gold standard was practically non-existent in England during war time but the Cunliffe Committee recommended its early restoration. A country's currency must be legally convertible into the standard metal; otherwise it loses one of its essential characteristics. The exchange standard is unautomatic and though it provides for the expansion and contraction of currency according to public needs, these operations are not satisfactorily performed. That standard is suited to the conditions of a country which cannot command an adequate supply of gold. It is not correct to say, without taking all circumstances into account, that the Indian currency system based upon the exchange standard, stood the shock and stress of the last war better than the gold standard in other countries. In his masterly note of dissent appended to the Chamberlain Commission's Report, Sir James Begbie, has disposed of the objections taken to the adoption in India of a true gold standard, accompanied by gold coins in circulation, as was recommended by the Fowler Committee.

Financiers in other countries are alarmed at the large absorption of gold in India and would like that the stream of the yellow metal flowing to this country should be divert-

1 Chamberlain Commission's Report, page 20.

ed into other channels. Imports of gold into India are, however, only the price paid by foreign nations for a part of Indian exports, and the currency system of India cannot be developed to suit their convenience and interests though this country is obviously interested in the financial stability and progress of the world. The accounts of the hoards of gold in India and of the hoarding habits of the people, are exaggerated and the fact that the masses in western countries also are addicted to that habit has been brought out by the quantities of sovereigns and other gold coins which have emerged from unexpected quarters for investment in war loans.[1] We have ample evidence to prove that gold coins have always been popular and in extensive circulation in this country. One of the lessons that a study of Indian history teaches, is that the statement now so generally made that India is too poor a country for the circulation of gold coins is unsupported by the facts of the case, as they can be ascertained from the history of the mints under Moghul and Mahratta rule and that there is no reason why 'if the gold coins were in demand a hundred years ago there should not be a similar natural demand for these coins in our present condition of greatly extended commercial and banking activity.'[2] Free convertibility of the internal currency into gold is necessary and will not be impossible in India. We do not want gold coins to take the place of paper money and feel that the latter may be expanded consistently with the introduction of a true gold standard.

129. Indian Conditions.—Gold and silver have been preferred by mankind for the material of their currencies for certain rare qualities they possess, and gold in particular has a certain fascination for man. That the precious metals are used both in arts and for currency purposes, is perhaps unfortunate in view of their limited supply. And we support the gold standard in opposition

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1 Committees of patriotic people in England during war times succeeded in unearthing small and scattered treasures of sovereigns from villages.

2 Ranade : Currencies and Mints under Mahratta Rule.

to the exchange standard because the latter is only a second or third best and not because of mere sentiment or the glamour of gold. The use of paper money must admittedly be encouraged, but in India it has its limits. If there is not sufficient gold to go round in the countries of the world, they must devise some suitable system by agreement among themselves and adopt bimetallism, for instance. But India cannot be expected to be satisfied with an exchange standard because it is inconvenient to other nations to allow her to have the gold standard and because the exchange standard is acceptable to the Philipines and the Straits Settlements. We agree with Prof. Nicholson in thinking that it is an inferior standard which suffers from serious drawbacks and, in fact, is not a standard at all.[1]

Conditions in India in this respect are different from those prevalent in other countries which have a gold exchange standard. (1) Here the annual gold absorption is large and the production of the yellow metal in Indian mines comes to four or five crores a year. (2) The balance of trade is usually favourable to this country, in spite of the payments which we have to make in England; and occasions when gold may be required for foreign remittance, are rare (3) The accumulation with the public of token coins turned out of the Indian mints and absorbed by the people, is dangerous, and if facilities are given for the circulation of gold coins by means of a gold mint and otherwise, stability of exchange will be still further secured. (4) The absence of a gold mint in India and the large circulation of silver tokens for which Government does not bind itself to give gold coins, are calculated to foster the hoarding habit which every one is anxious to discourage. (5) Too much attention is paid in India to the maintenance of foreign exchange, and every thing else is subordinated to it. (6) The rupee, which is the principal coin of the country, is only a note printed on silver and its

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1 See an article on the subject in *The Economic Journal*, June, 1914, by Prof. J. S. Nicholson.

convertibility is limited. And consequently it does not inspire in the public mind the same confidence that a gold coin is calculated to do. (7) Gold coins largely circulated in India and were popular before the yellow metal was demonetised in the last century, and if the people want gold coins, there is no reason why they should not be supplied to them.[1] (8) Sentiment and public confidence contribute not a little to the success of a currency system; and it cannot be said that the Indian token currency is regarded as satisfactory by the public and conduces to economic progress.

130. A Gold Mint for India.—After the Fowler Committee had recommended the adoption of a gold standard and a gold currency, the Government of India took up seriously the question of starting a gold mint in Bombay, and in his financial statement in 1900, Sir Clinton Dawkins announced that every thing was ready for it. But all possible imaginary difficulties having been raised by the Mint authorities in London and the British Treasury, the project was abandoned. The question was raised again in 1912 by Sir Vithaldas Thackersay by moving a resolution in the Supreme Legislative Council and Mr. Gokhale accorded his support to the suggestion that gold should be coined in the Indian mints.

The Government of India sent a despatch to the Secretary of State, dated 16th May, 1912, and strongly urged the necessity of minting a gold coin in India. The plea put forward in the despatch is supported by sound

1 Special inquiries were made with regard to the circulation and popularity of the sovereign in the different parts of India, and Mr. Howard, Controller of Currency, arrived at the following conclusion :— "On the whole, it may perhaps be fairly concluded from this evidence that the popularity of the sovereign as a medium of ordinary currency depends largely upon the extent to which it is made available to the cultivator by the various firms and middlemen who buy up his produce, and that when it is available in large quantities it is gladly accepted and used in every day transactions......There is no doubt that some gold is hoarded or, in other words, put aside to meet exceptional and unforeseen expenditure, but this is only natural".—Report of the Controller of Currency for 1913-14, Appendix III.

reasoning, and it completely demolishes the case of the opponents of the proposal. The despatch examines and refutes the arguments, (1) that an Indian gold coin is unnecessary, (2) that it will not assist the maintenance of exchange, (3) that it will be too expensive, and ends by remarking, (4) that the proposal for a gold coinage had behind it the support of Indian public opinion.

Lord Crewe, the Secretary of State for India, referred the proposal to the Lord Commissioners of the Treasury. They did not accept it and, instead, offered two alternatives:—(1) "That a branch Mint be established at Bombay solely for coinage of gold under the supervision of the Royal Mint and His Majesty's Treasury; (2) that the control of the whole of the existing Mint at Bombay be taken over by His Majesty's Government, who would accept at the expense of India the responsibility for an establishment, producing not only British gold coins but also coins for circulation in India, that is, silver and nickel."

These proposals could not be acceptable; but as Lord Crewe pointed out in his reply, it was open to the Government of India to produce at one of the Indiau Mints a separate Indian gold coin of the denomination of say Rs. 10. The Secretary of State suggested that this course would be inexpensive and would avoid the intervention of the British authorities in India's general coinage operations. There was further this advantage that a gold coin of the denomination suggested would satisfy such currency requirements as are not met by the present facilities for obtaining sovereigns, rupees and notes.

The Chamberlain Commission, however, holding as it did that a gold exchange standard with an actual currency consisting of token coins and notes, was quite enough for India, did not see its way to lend its support to the idea of a gold mint or even of the circulation of gold as currency. But if Indian sentiment wanted a mint and if the Government was prepared to incur the expense, the Commission stated, it might have a gold mint provided

the coin to be minted was the sovereign (or the half sovereign).[1]

131. Gold Standard Reserve Fund.—One of the chief buttresses of the Indian currency system is the Gold Standardard Reserve Fund which was created on the recommendation of the Fowler Committee and was to be formed out of the profits on the coinage of rupees. The gold thus accumulated, was to be made available for foreign remittances whenever the exchange fell below specie point. But the intention of the recommendation and the object of the Reserve were differently interpreted, and the soundness of the policy pursued by Government in connection with the Reserve was seriously called in question. The chief questions for consideration regarding the reserve were :—(1) the purpose for which it should be used; (2) the form in which it should be held; (3) its location, that is, whether it should be held in England or India; and (4), its amount, that is, whether it should be allowed to accumulate indefinitely and, if not, what limit should be placed on its accumulation.[2]

These questions were forced upon public attention by the experiments which were made by successive financiers with the gold reserve. As a correspondent observed in the *London Times* towards the close of 1912, 'Sir Edward Law perpetrated the first blunder by investing the reserve in England instead of keeping it in India. He was obsessed by the possibilities of interest, with the result that India

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1 The monetary stringency caused by the War, at last swept away all objections and forced the hands of the Government, and a Royal Proclamation was issued on 21st December, 1917, directing that a branch of the Royal Mint be established in Bombay, that gold coins of the same denominations, designs, weights and fineness as gold coins coined at the Mint may be coined at the Bombay branch mint, that the Master of the Mint prepare and transmit dyes for the gold coins to be coined in Bombay, that the coins so coined be deemed to have been issued from the London mint and be legal tender in like manner and to like extent, and the Bombay mint be regarded, for the purpose of gold coinage, as part of the London Mint.

2 See Appendices to the Interim Report of the Chamberlain Commission, page 87.

has not only lost all the advantages of a liquid gold reserve but has suffered the loss of nearly a million sterling through the depreciation of securities.' Another point of departure was that in connection with the purchases of silver for his coinage operations, Sir Edward Baker decided to hold six crores of rupees of the gold standard reserve in coined rupees. Then came the intervention of the Mackay Committee. "The demand for railway contruction had outstripped the capacity of the Government of India to furnish the necessary funds. A committee which sat in England under the chairmanship of Sir James Mackay (Lord Inchcape), light-heartedly recommended that half the profits on coinage should be diverted to capital expenditure on railways. A million sterling was misappropriated to this purpose before the universal condemnation of such a perversion of sound principle compelled the Secretary of State to withdraw a decision which in no conceiveable circumstances should have been taken." Attempts were likewise made to fix a limit to the accumulation of the gold reserve fund so that additions to it beyond the limit might be devoted to capital expenditure.

In the crisis of 1907-08, the balance of trade turned against India. Exports fell off owing to the unfavourable character of the agricultural season and imports continued to pour in. There was a heavy demand for remittance of gold abroad, stimulated by the premium upon the yellow metal caused by an American financial crisis coming on the top of a scarcity in this country. The Government of India first hesitated and doled out gold in small quantities. But its stock was small and was likely to be soon exhausted. It, therefore, sold sterling drafts on London to the extent of £ 8 millions, which put a severe strain on the gold standard and currency reserves in London. This experience taught a valuable lesson in the management of Indian currency, and similiar measures were resorted to when there was an adverse balance of trade soon after the outbreak of the war and later in the course of the struggle.

132. Recommendations of Chamberlain Commission.—The Chamberlain Commission discussed all the points in dispute between Government and its critics with reference to the gold Reserve, mainly the questions whether the bulk of the Reserve should not be held in gold instead of in securities and in India instead of in London and whether the Reserve should not be used to relieve monetary stringency in this country instead of being locked up in England. The Commission thought that as the chief purpose of the Reserve is the maintenance of exchange and as the gold is wanted for payment in London, that financial centre is the proper place where it should be located.

It concluded:—(1) No limit can at present be fixed to the amount upto which the Gold Standard Reserve should be accumulated; (2) the profits on coinage of rupees should for the present continue to be credited exclusively to the Reserve; (3) a much larger proportion of the Reserve should be held in actual gold. By an exchange of assets between this Reserve and the Paper Currency Reserve, a total of about 10,000,000*l* in gold can be at once secured. This total should be raised, as opportunity offers, to 15,000,000*l*, and thereafter the authorities should aim at keeping one half of the total reserve in actual gold; (4) the Indian branch of the Reserve in which rupees are now held should be abolished, the rupees being handed over to the Paper Currency Reserve in exchange for gold; (5) the proper place for the location of the whole of the Reserve is London; and (6) the Government should definitely undertake to sell bills in India on London at the rate of 1*s*. $3\frac{29}{32}$*d.* per rupee whenever called upon to do so.

The consideration that a reserve of gold held in India will inspire confidence in the public mind and may be lent to Indian banks to the benefit of commerce and industries, as also the consideration that in a time of crisis location of Indian gold in London may cause serious inconvenience and loss, did not impress the Commission, and it lent its support to the policy pursued by Government with regard to the location of the Reserve. On the outbreak of the

war, the silver branch of the Reserve was abolsihed and a loan was taken from it temporarily to replenish the cash balances of the Government of India.

At the end of the official year,[1] 1916-17, the total of the Reserve stood at £ 31·5 millions, more than £ 4 million being added to it on account of the huge coinage of rupees the Government had to undertake to replenish its dwindling stocks The loan taken from the Reserve was returned to it in the course of the year, and £ 25·4 millions were invested in London, £ 6 millions having been placed at short notice by the Secretary of State for India. The holdings in the Gold Reserve on 31st March 1918, were estimated at £ 34·31 millions and out of this, £ 28·31 millions was invested in London, the remaining £ 6 million being placed at short notice in the same place. There was not an ounce of this gold in India at the close of 1917-18. "On March 31st 1918, the total profit on coinage since 1900, was £ 28,843,592; the interest and discount £ 8,074,195 and the profit by exchange £ 194,966, a total of £ 37,112,703. Of this sum, £ 1,123,655 has been used for capital expenditure on railways; the remainder has been credited to the Reserve. The total interest and discount including the profit on exchange, upto March 31st, 1918, were £ 8,269,111, and the total losses through depreciation, sale and redemption of securities, &c. were £ 1,535,606. There was thus a net profit on investments upto March 31st, 1918, of £ 6,733,505."[2]

133. Paper Money.—To economise the use of the precious metals and to supply to the public a more convenient form of currency, Governments and banks issue

1 On 31st March 1919, the Reserve stood as follows :—
In England—

Estimated value on 31st March 1919, of sterling securities of the nominal value of £ 30,156,924	£ 29,729,505
Cash placed by the Secretary of State in Council at short notice	6,015,672
Total ...	35,745,177

2 G. Findlay Shirras : Indian Finance and Banking.

paper money, and paper occupies a large place in the currencies of the advanced nations. The cheque in England and the bank note on the continent, are extensively used as media of exchange, and metallic money occupies only a very subordinate position in the currency systems there. The right of issuing notes is a monopoly enjoyed by banks in certain countries while in the United States of America banks are allowed to exercise this function freely.[1] As the right to coin money out of paper is likely to be abused to the detriment of the public, the issue of notes is generally regulated by the State in all countries. Where there are State banks, as in Russia, there is no question of the control of Government. In countries, like England, France and Germany where the connection between the central bank and the State is very intimate and in America, where there are numerous private banks enjoying the right of note issue, the regulation of the issue of notes is found necessary in the interests of the public.

There has recently been a great expansion of paper currency in India, the stringency of money caused by the war having necessitated the issue of large quantities of notes. The currency thus expanded, must be steadily deflated as the demand for it decreases and Government has been cancelling the superfluous notes as they are received in the treasuries. The use of cheques in ordinary transactions, is however, limited; and though the progress of paper circulation is satisfactory, and was exceptionally rapid in time of war, there is yet an unlimited field for the expansion of paper currency.

Prejudice born of ignorance will disappear with familiarity and Government's policy of 'universalizing' notes i. e. making them encashable in all parts of the country, whatever the circle of issue, has already contributed to the expansion of paper currency. The poorer classes find it difficult to keep and handle paper money in India and

1 Though there is no monopoly of issue in the U. S. A., the privilege of note issue enjoyed by banks is hedged in with various conditions and restrictions.

hence its progress in villages is slow. The preference shown for metallic money by the mass of people in this country, is due to their social habits and their poverty; and this fact must not be lost sight of in criticising their love of that form of currency and ought to moderate our enthusiasm for the promotion of the use of paper as an instrument of exchange. Any forcing of the pace in this matter and the issue of a large amount of token currency will only drive the people to gold and encourage hoarding among them. Spread of education, progress of industries and commerce and the policy of Government tending to popularise currrency notes, will encourage a larger use of paper substitutes for metallic money. Instruments of credit were in use among bankers and merchants in old times but bank notes and notes issued by the State as a part of national currency, were not known. This is a development of the past seventy years. "Under Acts of the Governor-General, Nos. VI of 1839, III of 1840 and IX of 1843, the Presidency Banks of Bengal, Bombay and Madras were authorised to issue notes payable on demand, but the issue of the notes was practically confined to the three cities of Calcutta, Bombay and Madras. These notes were not legal tender. The issues were limited to maxima of two crores of rupees in the cases of the banks of Bengal and Bombay, and of one crore in that of the Bank of Madras. These Acts were repealed by Act XIX of 1861, providing for the issue of a paper currency through a Government Department by means of notes of the Government of India payable to bearer on demand. These notes were made legal tender within the circles of issue. Since the 1st March 1862, when this Act took effect, no banks have been allowed to issue notes in India."[1]

134. Regulation of Issue.—Mr. James Wilson, the first Finance Member of the Governor-General's Council, initiated the new policy by introducing a Bill relating to the paper currency in India in 1860. He pointed out in his speech before the Legislative Council the advantage of

1 Memorandum submitted by Mr. F. W. Newmarch to the Chamberlain Commission.

a Government paper currency to be managed entirely by the State. "The Government of India," he said, "proposed to take the issue department of the Bank of England as their model." [1]

Notes, which are only silver or gold certificates, representing a stock of the precious metals of equal value kept in reserve, do not possess the advantages mentioned above; and fiat money or inconvertible paper money has its obvious dangers. The Government of India placed before itself as its guide the English Bank Charter Act of 1844 and imposed a limit upon the fiduciary issue though that limit has been raised from time to time as the circulation of the currency notes has steadily expanded. The issue of bank notes is regulated by the State in all countries. A reserve of gold and silver is insisted on as a guarantee for the encashment of the notes whenever they are presented, and the amount of the notes which need not be so secured by a reserve, is strictly limited by law, a departure being allowed therefrom only under specific conditions. The portion of the note issue not convered by a reserve of cash, may bear a certain ratio to the total circulation or may be a fixed amount to be automatically raised with the increase of issue. [2]

It was provided by the Act of 1861 that bullion and coin should be retained as a reserve to pay the notes issued, with the exception of such an amount not exceed-

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1 "Not only would such an issue department possess a security greater perhaps than that of any bank of issue in the world, but there would be a large direct profit to the State from the interest derived from the fiduciary portion of the reserve and an indirect advantage in the improvement of Government credit from the purchase of securities for the paper currency reserve. I should mention that Mr. Wilson's bill did not become law without considerable modification, the principal being that the lowest denomination of note was fixed at ten rupees instead of five, and that the fiduciary portion of the reserve was limited by the Act, as passed, to four crores of rupees instead of two-thirds of the note circulation as proposed by Mr. Wilson."—Evidence of Mr. F. W. Newmarch before the Currency Commission, 1914.

2 Compare the British, French, American and German systems in this connection.

ing four crores of rupees as the Governor General in Council with the consent of the Secretary of State for India might from time to time fix. This amount was to be invested in "Government securities." In December 1863 the note issue was valued at Rs. 5,11,00,000 and the Reserve was composed thus:—

Silver Coin Reserve	...	...	...	1,93,22,868
Silver Bullion Reserve	...	...	...	1,17,00,000
Government Securities	...	...	...	2 00,77,132
				5,11,00,000

The invested portion of the Reserve was thus about two-fifths of the total circulation.

The maximum fiduciary issue, which was originally limited to 4 crores, was raised to 6 crores in 1872, to 8 crores in 1890, to 12 crores in 1905 and to 14 crores in 1911. Originally the securities in which a portion of the paper currency reserve was to be invested, were to be 'securities of the Government of India'; but when in 1905 the limit of the fiduciary issue was raised to 12 crores, 'securities of the United Kingdom of Great Britain and Ireland' and 'securities issued by the Secretary of State for India in Council under the authority of Act of Parliament, and charged on the revenues of India', were added, the value of the latter classes of securities being limited to 2 crores. By Act VII of 1911 the limit of the invested portion was raised to 14 crores and it was provided that 4 crores out of these might be invested in securities other than those of the Government of India.

As will be shown below, the permissible invested portion has been raised from this limit to Rs.120 crores, and the bulk of these securities are, at present, British Treasury Bills. By the Indian Paper Currency (Amendment) Act, Act VI of 1918 and Act II of 1919, the maximum limit for the issue of currency notes against Treasury bills, was raised from 48 to 86 crores and later on to 100 crores of rupees.

The percentage of securities in the Reserve to the total circulation of notes was 22 during the pre-war quinquennium. It rose to 29 in 1916, to 56 in 1917, to 62 in 1918

and to 65 in 1919. The following table will make the position clear:—

Date	Gross circulation of Notes.	Lakhs of Rupees.				Percentage of total metallic Reserve to Gross Note circulation.
		Silver.	Gold.	Securities	Total.	
31st March 1914...	66·1	20 5	31·5	14 0	66·1	78·0
„ „ 1915...	61·6	32·3	15·2	20·0	61·6	77 3
„ „ 1916...	67·73	23 5	24·1	20·0	67·7	70·5
„ „ 1917...	86·38	19 2	18 6	48·4	86 3	43·9
„ „ 1918...	99 79	10 7	27·5	61 4	99 7	38·4
„ Nov 1919...	179·67	47 4	32 7	99·5	179·6	44·6

135. Currency Reserve.—For several years the Paper Currency Reserve was kept mainly in silver and in India. But since 1898 this policy has been changed, and a portion of the Reserve is now located in London to be used for the purchase of silver for coinage purposes and also for the support of exchange. In 1898 an Act was passed (II of 1898) enabling notes to be issued against gold held by the Secretary of State in London. This Act was a temporary measure intended to meet exceptional conditions. The Secretary of State sold bills beyond his own requirements for the convenience of trade, but the Government of India could not meet them from their balances. The above Act was intended to enable them to meet the drawings from the Paper Currency Reserve, the Secretary of State setting aside gold to the account of that Reserve in London to the same amount as the Government of India took out from the Reserve in this country to meet his drawings.

This temporary arrangement was extended for two years and then in 1902 by Act IX of that year, made permanent. The Secretary of State was enabled by this Act, to purchase silver bullion and to transmit it to India

for currency purposes. 'Thus the Secretary of State might either (1) hold gold in England as part of the reserve against the note issue in India, or (2) he might transmit the gold to this country to serve the same purpose here or (3) he might expend it on the purchase of silver, also to form part of the reserve. Gold or silver in transit to India, from its location as part of the reserve in England or *vice versa*, remains part of the reserve while in transit. In practice only the first and the third of the above alternative courses are adopted as ordinarily sovereigns are imported on private account in sufficient quantities into India and render it unnecessary for the Secretary of State to ship them.'

If the silver required for coinage purposes cannot be purchased in India,[1] it is but reasonable that a part of the Paper Currency Reserve should be transferred to London by the sale of Council bills to enable the Secretary of State to make the necessary purchases whenever necessary. But the portion of this Reserve located in London, came to be regarded a first line of defence in a time of exchange crisis, and strong objection was taken to the utilization of the currency reserve which is intended mainly to enable the Government of India to encash its notes for supporting exchange and to the investment and locking up of large funds in England. It was argued that the English joint stock banks worked with a very small reserve of gold and relied too much on the Bank of England and that it was dangerous to hold the gold of the currency reserve earmarked at that Bank. The general objection to the transfer of Indian gold to London in the case of the gold standard reserve applied with greater force to the gold in the currency reserve. The Government,

1 The necessity and wisdom of transferring even a part of this Reserve to London have been doubted and it is urged, with much show of reason, that silver purchases should be regularly and directly made in India through Indian merchants. India has a large bullion market, e. g. Bombay, and it is capable of great expansion. It is not an extravagant but a legitimate demand to ask Government to make its silver purchases in this country. This suggestion, if adopted will benefit Indian trade without causing inconvenience or loss to Government.

however, replied that if the gold on account of the Reserve were not drawn to London, it would, in any case, have to be transferred there for the purchase of silver when the stock of rupees was depleted and gold in India could not serve the purposes of currency. It was stated that "the gold in the Reserve in India has been much in excess of the demand, that the Gold Standard Reserve has not in itself been sufficient to secure beyond question the stability of exchange, and that gold in London is more directly and indubitably effective for this purpose than gold in India."

The Gold Standard Reserve has recently increased very rapidly owing to the enormous amounts of rupees the Government had to coin to meet war expenditure incurred on account of His Majesty's Government though rising silver prices eliminated all profit on rupee coinage for some time. The necessity of earmarking gold belonging to the Currency Reserve at the Bank of England which is said to be 'equivalent to the export of gold from London to India,' because that gold so set aside against notes issued in this country, is not available to the London market, was removed by an amendment of the law, and the Secretary of State for India was empowered, by successive steps, to invest the Reserve there up to a total amount of Rs. 100 crores this limit of securities in England having been only Rs. 4 crores before the out-break of the war. The total invested portion of the Paper Currency Reserve was increased by March, 1918, to Rs. 86 crores and later to nearly 100 crores as against Rs. 14 crores only before the war broke out. The Gold Standard and Paper Currency Reserves have expanded beyond all expectations in the course of the years of war, and the recommendations of the Chamberlain Commission could not give sufficient guidance to decide how they should be invested and utilised as a permanent policy.

136. Note Circulation.—Indian currency notes 'are in the form of promissory notes of the Government of India, payable in rupees to bearer on demand, and are issued in denominations of 5, 10, 50, 100, 500, 1,000, 10,000

and latterly 1 and 2½ rupees. They are issued without limit at any paper currency office against rupees or gold. For the purpose of the note system, India is divided into certain circles, and (with the exception of the 5 rupees note which was universalised outside Burma in 1903) the notes were, until 1910, legal tender only within the circle of issue.' Since then all the smaller denominations of notes up to and including those for 100 rupees, have been universalised.

An urgent demand for currency which could not be satisfied with the available stock of rupees, led the Government to think of issuing notes of very small denominations such as one rupee, in imitation of the one £ and 10 s. notes issued in England to satisfy the enormous corrency needs of the war period. The one-rupee notes were issued on 1st December, 1917 and notes of the denomination of Rs. 2½ on 2nd January, 1918. The issues were first confined to the three Presidency towns and special facilities were given for their encashment at the Post Offices. In the course of a few months their total issue reached a value of Rs. 45 lakhs, and the encashments amounted only to Rs. 11 lakhs. On 31st March 1919, the values of the 1 Rupee and 2½ Rupees notes in circulation were about 10½ crores and 1¾ crores respectively. These notes were primarily issued with the object of supplying additional currency and economising the use of silver which had become unprecedentedly dear. The above universalisation of notes has assisted to expand and popularise paper currency in India. The average gross circulation of notes was 28.58 crores in 1900–01, 45·14 crores in 1906–07, 65·62 crores in 1912–13, 64 crores in 1915–16, 101 crores in 1917-18, 133 crores in 1918-19 and the circulation exceeded 180 crores in 1919-20. The following table

shows the gross, net and the active circulation of currency notes on 31st March during the past few years:—

	Gross circulation (crores of Rs.)	Net[1] circulation (crores of Rs.)	Active circulation (crores of Rs.)
1913 ...	61 ...	56 ...	45
1914 ...	66 ...	59 ...	50
1915 ...	62 ...	56 ...	44
1916 ...	68 ...	64 ...	53
1917 ...	86 ...	82 ...	67
1918 ...	100 ...	98 ...	82
1919 ...	153 ...	150 ...	134

The expansion of the circulation of currency shows a steadily increasing amount of currency absorption. Currency is said to be absorbed when it remains in the hands of the public and is the net addition to circulation. The absorption can be found by adding together the coinage of rupees and sovereigns, the net imports of sovereigns and the issue of notes and deducting from the total the increase that may have taken place in the Reserves and the Treasury balances of Government. The following table shows the total absorption of each form of currency :-

	1913-14 (crores of Rs.)	1915-16 (crores of Rs.)	1917-18 (crores of Rs.)	1918-19 (crores of Rs.)
Gold ...	16·26	·40	11·64	5·21
Silver (rupees and half-rupees)	5·32	10·40	27·86	[illegible]
Currency Notes ...	2·87	7·87	15·48	[illegible]
Bank and other balances.	·81	.53	1·83	[illegible]
Total ...	33·84	18·40	53·15	[illegible]

1 The 'net circulation is obtained by deducting from the gross amount the quantity of notes held in Reserve Treasuries. We get the active circulation if notes held in other Government Treasuries and in Presidency Bank Head Offices are further deducted. In this latter circulation notes held in Government Treasuries other than Reserve Treasuries, are not often included; but in the above figures the active circulation is arrived at after making all these deductions.

The following table gives the circulation of each denomination of note on 31st March of 1915, 1917 and 1919.

No. of Notes for Rupees.	1914	1917	1919
1	...	...	105,065,650
2-8	...	...	7,338,712
5	3,222,891	6,624,239	18,381,838
10	17,726,423	25,598,996	46,922,029
20	38,415	21,652	17,689
50	357,059	504,130	979,508
100	1,781,370	2,532,181	4,380,532
500	52,774	48,914	49,387
1,000	91,712	112,480	151,080
10,000	15,294	18,890	18,685
Total Pieces ...	23,285,938	32,460,539	183,345,110
,, Value in Rs.	66,11,75,935	86,37,51,735	153,46,47,790

137. Currency Operations.—The Government of India and the Secretary of State perform several functions which, in other countries, are performed by private and State banks. The connection between the Indian Government and movements of trade, internal and external, is very intimate and the financial operations of the Currency Department and of the India Office, are on an extensive scale. The Treasury system of Government and its management of exchange and currency, which are of the

nature of ordinary banking functions, necessitate these operations on behalf of the State. When a central or State Bank is established it can take over these functions from the hands of the Government. As matters stand, funds have to be moved from treasury to treasury and from currency chest to currency chest to meet the seasonal demand arising from the necessity of financing export trade.

"Briefly the position is that, in addition to the Treasury, Currency Reserve and Gold Standard Reserve Balances at Head-quarters, Government hold large amounts of money distributed over India in District treasuries and in currency chests, nearly every treasury having such a chest. Money comes into the Government treasuries and sub-treasuries all over the country in payment of revenue, from which it is necesssary to provide funds for expenditure at Head-quarters or in order to meet outgoings in England. Conversely, the trading firms have large remittances to make to the interior in payment for produce. Firms requiring money for this purpose constantly apply to Government for remittance orders from one place to another within the country, and Government meet their requirements so far as they can do so, by the issue at a small charge of supply bills and telegraphic transfers through treasury or currency. The amount of remittances annually effected in this way is very large. The arrangement is economical for all parties concerned as enabling these transactions to be largely effected without any actual movement of coin."[1] We propose to notice in the next Chapter, a similarly intimate relation which subsists between the operations of Government and the adjustment of the transactions of India's external trade.

So far as the Government is concerned, funds are moved from one treasury to another to supplement the moneys available there. Government likewise remits funds at a small charge, for the convenience of trade by giving them transfers on its treasuries. The paper cur-

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1 Report upon the Operations of the Currency Department during the year 1913-14.

rency reserve is kept in special 'chests' which are located at each treasury and transfers are made through these chests. If a certain treasury is short of funds, it may take the amount it requires from the currency chest, and a corresponding transfer from treasury to currency chest is made at some other place, where there are surplus funds at the time. The aggregate value of transfers 'through currency' in 1918–19, amounted to 55·13 crores of rupees and the total movement of funds through treasuries as well as through currency offices, amounted to just over 100 crores.

138. War and Currency.—So far we have given an account of the Indian currency system as it developed from stage to stage till the outbreak of the war, with occasional references to the effects of the prolonged and exhausting struggle upon that system. The war which has thrown the world's currencies and exchanges into utter confusion, did not fail to disturb and upset the Indian gold exchange standard. As the question of foreign exchange will be dealt with specifically in the next Chapter so that it may be adequately treated, we shall here pay it only a passing notice and direct attention to other salient points in the position into which Indian currency was driven by the stress of abnormal circumstances. It is, however, necessary to remark that India's currency difficulties were primarily and directly due to the valuable part the country took in the prosecution of the war and constituted her sacrifice for the Empire and her contribution to the successful termination of the struggle. The first effect of the outbreak of the war was seen in the weakening of the exchange, withdrawals of savings bank deposits, a demand for the encashment of notes and a run on Indian gold stocks. These difficulties were courageously met by Government, and public confidence was restored in a short time.

The most serious difficulty Government had to encounter, was presented by the enormous demand that arose for currency and that could not be satisfied with such large issues of rupees and notes as could be put into cir-

culation. On the one hand, imports into India were curtailed by a shortage of shipping and England's preoccupation in the production of munitions and on the other, exports had to be maintained on an extensive scale for supplying the Allied armies with food and war material. Foreign indebtedness to India due to the trade balance, could not be adequately met as gold became scarce and the situation was aggravated by the enormous disbursements which the Indian Government had to make in this country on behalf of His Majesty's Government and repayable in London. From the table given on a preceding page,[1] it will be seen how the imports of treasure into India were seriously curtailed during the war period and the natural result of this unsatisfied Indian demand and unliquidated trade balance, was that Government had to get hold of all the silver it could and coin it into rupees. The pressure upon the world's silver supplies was intense and its price steadily rose till at last it attained unprecedented heights with 89 d. an oz. in 1920. Between April 1916 and March 1919, Government purchased no less than 300 million standard ounces of silver in the open market besides the 200 million fine ounces placed by the U. S. A., under a special agreement, at the disposal of India. While on the one side, the demand for silver was abnormal, all the world over, the production of that metal averaged 178 million ounces during the four years 1914–17 as against 228 million ounces, the average of the preceding four years.

The exchange standard depends for its success upon Government's ability to maintain the artificial value of the rupee and to prevent it from rising above or falling below the fixed rate. On account of the extraordinary conditions mentioned above, Government found it impossible to work the system in the normal way. They, therefore, restricted the amount of rupees offered for sale in London and controlled the operation of exchange banks which were asked to finance the export of commodities of national importance required for the prosecution of the war so as to economise

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1 Page 205.

the supply of currency. But the most serious factor which upset the exchange standard was the high price of silver combined with reduction of gold imports.. The bullion par of the rupee, that is, the price at which Government can issue rupees to the public on the basis of the fixed ratio 1 sovereign=15 rupees, without loss, is 44 d. per ounce. This means that if silver rises above this level of sterling price, the 165 grains of silver contained in the rupee are worth more than 16 d. and Government must either suffer loss in issuing rupees or demand more in sterling for them.[1] Government was, therefore, driven to the necessity of raising the sterling value of the rupee in successive stages in response to the continued rise in the price of silver.

139. Breakdown of the Standard.—Thus the exchange standard which had been maintained by preventing the rupee from falling below 16 d., broke down, and the other contingency that silver would rise to such heights had not been contemplated. By law the rupee had been made $\frac{1}{15}$th part of the soverign or equivalent to 7·5 grains of gold, there being about 113 grains of pure gold in a sovereign. But this ratio had to be raised with the rise of silver, and the Government's rate of selling rupees by telegraphic transfer was successively enhanced, till it reached 28 d. on 12th December, 1919. Besides raising the rate of exchange, Government adopted a number of other measures to meet the situation created by dear silver and the practical cessasion of gold imports in liquidation of the trade balance.

On 29th June, 1917, the use of silver or gold coin for other than currency purposes was made illegal and on 3rd September of the same year, the export of silver coin and

1 The bullion par of a token coin is the value of its metallic contents as distinguished from its face value. This par is 66 d. in the case of the English shilling, $60\frac{3}{4}$ d. in that of the French five franc piece and $59\frac{1}{4}$ d. with regard to the U. S. A. dollar. When the gold value of the token coin exceeds the value put upon it, the coin loses its token character and Government must either reduce its metallic content or raise its nominal value in response to the rise in the price of the metal.

bullion was prohibited. Notes of the denominations of Rs. 2½ and Re. 1 were issued with the view to economise silver. With the same object a new two anna nickel piece was issued at the end of March, 1918 and in September, 1919, authority was taken from the legislature for the issue of four anna and eight anna nickel pieces. The latter were not to be unlimited legal tender like the silver half-rupees and the limit was put at one rupee. To make up for the shortage of silver, Government tried to increase its holding of gold by requiring all gold imported into the country to be sold to it at a rate fixed from time to time and based upon the sterling exchange value of the rupee and irrespective of the prevailing premium on gold as compared with sterling and of the existing legal parity between the rupee and the sovereign.

To supplement the rupee and paper currency a branch of the Royal Mint was opened in Bombay in August, 1918 and as some delay was inevitable before sovereigns could be minted there, the gold Mohur of the same weight and fineness as the sovereign, was issued. In April and May of 1918, a grave currency crisis seemed imminent and Government escaped from inconvertibility by the skin of its teeth. The silver supplied by the Government of the U. S. A. under the Pittman Act[1] was of the greatest use in the crisis. Before gold coinage was suspended in April, 1919, 2,110,000 mohurs and 1,295,000 sovereigns had been coined in Bombay. On account of the premium upon gold in the bazar, the sovereign selling at as much as Rs. 19, gold coins hardly circulated as currency, though in 1917 and in 1918, Government issued sovereigns and mohurs amounting in value altogether to £ 11 million. In order to supply to the public the gold for which there was an exceptionally keen demand, Government commenced, at the end of August, 1919, fortnightly sales of that metal and succeeded in bringing down its price to an appreciable extent.

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1 The Act authorised the sale to other Governments of silver not exceeding 350 millions silver dollars from the holding in the dollar reserve.

140. Babington Smith Committee.—It was no defence of the exchange standard to say that under it Government was at liberty to raise the value of the rupee as circumstances required because that value had been fixed as that of so many grains of gold, the rupee being regarded for all practical purposes as a bit of gold and not of silver. The chaotic condition of the system of currency and exchange at last appeared to call for an inquiry and a suitable remedy. On 30th May, 1919, the Secretary of State, therefore, appointed a committee with Sir Henry Babington Smith as Chairman. The Committee was asked to examine the effect of the war on the Indian exchange and currency system and practice and upon the position of the note issue and to make recommendations as to modifications that might be thought necessary with the view to ensuring a stable gold exchange standard. The question of monetary standard was not kept open and what was desired was the stabilizing of the exchange value of the rupee at a suitable rate.

The Committee attached the greatest importance to stability of the value of the rupee and thought that if a large change had taken place in it already, 'it may be preferable to establish stability at the new level rather than to submit to the further change which is necessary for a return to the old level, especially if the former course shortens the period of uncertainty.' The alternative courses open if the rupee was not to be fixed at a high sterling rate, would have been (1) a reduction of the fineness or weight (or both) of the rupee (2) the issue of 2 or 3 rupee coins of lower proportional silver content, (3) the issue of a nickel rupee, or (4) temporary and partial inconvertibility of the note issue. The Committee rejected all these suggestions on the ground that the rupee with which the masses had become so intimately familiar, and to which they were, so to say, deeply attachd, must, in no case, be tampered with, and as regards inconvertibility, temporary or otherwise, it was simply unthinkable.

The most suitable rate of exchange was, in the opinion of the Committee, 24 d. and it was to be expressed not in

terms of sterling but in terms of gold. That is to say, the rupee was to be linked to gold and not to the pound sterling. Gold coin was not in circulation in England and Treasury notes formed the great bulk of the full legal tender currency and they were not convertible into gold. The pound sterling was therefore at a discount.[1] The American dollar was convertible into gold and New York was the only free market for gold. The relation between the gold sovereign and the gold dollar is the relation between the quantities of the metal contained in the two coins and it is expressed by saying that the sovereign = 4·8666 dollars. But in December 1919, the pound sterling was quoted at £ 3·83, which meant a depreciation of 21 per cent. The discount on the British currency has continued, though on a slightly reduced scale. In view of this depreciation and fluctuation in the value of sterling, the Committee recommended that the rupee should be linked to gold and not to sterling. The stable relation between the rupee and gold was fixed at the rate of Rs. 10 to the sovereign or of one rupee for 11·30016 grains of fine gold.

141. Chief Recommendations:—Having altered the gold value of the rupee from one fifteenth to one-tenth part of a sovereign and rendered it independent of the depreciation of the pound sterling, the Committee proceeded to make other recommendations. It wished that the import and export of gold into and from India should be freed from Government control and reiterated the opinion of the Chamberlain Commission that though the aim of the currency policy should be to give to the people the form of currency they demand, 'gold can be employed to the best advantage in

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1 "The result is that there is a divergence between the value of the pound sterling and the sovereign. One hundred ounces of fine gold can be coined into 425 sovereigns; but at the quotation on 17th December, (108 s. 9 d. per oz.) 100 ounces of fine gold cost approximately £ 544 in sterling, i. e. in notes. Thus £ 1 sterling (paper) is equivalent to 425/544 or 78 of the sovereign (gold), a discount of 22 per cent.; or conversely, the sovereign (gold) is worth £ 544/425 or £ 1·28 sterling (paper), a premium of 28 per cent."—Report of Babington Smith Committee, paragraph 55.

the Government reserves where it is available for meeting the demand for foreign remittance.' The Bombay branch of the Royal Mint was to be reopened for the coinage of sovereigns and half sovereigns and the obligation of Government to give rupees for sovereigns was to be withdrawn in view of the prevailing shortage of silver though in normal times facilities were to be given for the conversion of legal tender gold into legal tender silver coin and *vice versa* The public was, of course, to be given opportunities to exchange sovereigns in their possession at the rate of Rs. 15 per sovereign at the time of the introduction of the new ratio The suggestion which had been placed before it in favour of a modification in the practice of purchasing silver for coinage and of arranging for the purchases in Bombay, which has a large bullion market, to the benefit of the Government and the advantage of Indian dealers, did not commend itself to the Committee who refused to make any recommendations in that behalf

The Committee made important suggestions regarding the Paper Currency and Gold Standard Reserves. It may be recollected that before the war the invested or fiduciary portion of the Currency Reserve was limited to 14 crores of which 4 crores might be held in sterling securities. The expansion of the note issue and the deficiency in the supply of the precious metals during war time, compelled Government successively to raise the limits of investment and the statutory maximum reached was 120 crores, out of which 20 crores might be invested in the securities of the Indian Government. The formula laid down by the Chamberlain Commission in this behalf was that the fiduciary portion of the reserve should be fixed at 'a maximum of the amount of notes held by Government in the Reserve Treasuries, plus one-third of the net circulation.' The object to be aimed at being the elasticity of the note issue and the security of its convertibility, the Committee thought that it would be enough to put the statutory minimum for the metallic portion of the Reserve at 40 per cent. of the gross circulation. The holding of Indian securities

was to be limited to 20 crores and the balance was to be held in securities of other Governments comprised within the Empire, not more than 10 crores of this holding having more than one year's maturity and all being redeemable at a fixed date. The existing permissive maximum of 120 crores was to be retained for a limited period.

The higher rate of exchange would necessitate the revaluation of sterling investments and gold in the Reserve at 2 s. to the rupee, and the loss resulting from the depreciation could be made good from savings due to the rise in exchange. To meet the reasonable demand for additional currency provision was to be made for the issue of notes up to 5 crores over and above the normal fiduciary issue as loans to the Presidency Banks on the security of export bills. As regards the public grievance about the location of a part of the Reserve in London, it was recommended that the silver and gold in the Reserve should be held in India except for transitory purposes. No limit could be fixed to the accumulation of the Gold Standard Reserve and it was suggested that when practicable it should be held largely in the form of gold, securities with early dates of maturity being selected for the invested part of it in order to keep it as liquid as possible. A portion of the gold in the Reserve not exceeding one half was to be held in India.

142. Criticism :—It will be seen that several of the recommendations of the Babington Smith Committee were designed to improve the Indian currency system consistently with the maintenance of the exchange standard and were calculated to remove the grievances of the public and to meet the wishes of critics in many important respects. Leaving the question of the high rate of exchange to be discussed in the next Chapter, we may here say that the alteration of India's monetary standard by the executive action of Government and the general working of the gold exchange standard during and after the War, have caused deep and widespread dissatisfaction in the country. Mr. Dalal, the only Indian member of the Babington Smith Committee, could not agree with his colleagues

on the fundamental questions at issue. He strongly protested against the change in India's money standard[1] which was the legal ratio of 1 : 15 between the sovereign and the rupee, which change he characterised as "a veritable revolution in her currency arrangements which must cause a widespread and lasting hardship amongst the masses of the people of India."

Mr. Dalal further says that it was not also necessary to alter the currency standard and that the high price of silver was not a sufficient justification. He thinks that the large demand for currency in India was caused mainly 'by the acceptance in London of payments due to India in the form of sterling which could not be transmitted to India by the usual methods.' The indebtedness of foreign nations to India could have been liquidated by the floatation of loans in them if not by the import of the precious metals. Great Britain paid for U. S. A. imports by the export of gold and of American securities held by British citizens and by floating loans in America. The same procedure could have been followed with reference to India's favourable trade balance.[2] But no such steps were thought of and the action of the Indian Government in prohibiting the exports of silver, the exclusion of the Indian stocks of that metal from the world's markets and the enhancement of the rate of exchange, drove silver prices to high levels. The mere fact of India selling her silver would, in Mr. Dalal's opinion, have shaken the strength of the silver market, and the sale of its silver currency by the Government of the U. S. A. in similar circumstances, lends support to his contention.

1 "In contradistinction to this legally established standard the gold exchange standard has no validity. It has not been clearly and explicitly defined. The authorities who conduct it exercise the widest discretion in its regulation but hitherto have been careful to respect the legally constituted ratio between rupees and the sovereign."

2 "Still there is little room for doubt that, during the war, British Government loans could have been successfully floated in India on a very large scale on the same lines and terms as some of those publicly floated in the U. S. A. to meet the expenditure of the Imperial Government."

The extraordinarily high prices of silver threatened the token currencies in England, France and other countries and their Governments met the contingency by issuing notes of small denominations and by preparing to debase the silver coins or manufacture new coins. It had been proposed, and the proposal was approved by Mr. Dalal, that while the existing silver rupee of 165 grains of fine silver should be continued full legal tender, its further coinage should be stopped and as long as silver prices ruled high, rendering the bullion value of the rupee higher than its face value, Government should issue 2 rupee silver coins of reduced fineness and make them legal tender, making it impossible for the new currency to go to the melting pot. If the choice lies between altering the standard of value and the metallic contents of a token coin, the latter alternative is certainly preferable, because it is less disturbing in its effects. And this method has been followed in several countries during the war. The rupee is, after all, a token coin, and a change in its silver content would not have been a serious matter.[1] But the Government was overwhelmed with apprehensions regarding the political effects of the measure and the Committee on Currencey and Finance regarded the weight of its opinion as decisive. The objection was certainly not entirely baseless and the adoption of the measure, often erroneously characterised as 'debasement,' was surrounded with administrative difficulties, particulary the prospect of the new coin driving the full-weight rupee out of circulation. But as a matter of fact, Government faced worse difficulties and need not have shied at the proposal to issue a new token coin.

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1 See the Author's Currency Reform in India.

CHAPTER XI.

Foreign Exchange and Finance.

REFERENCES.

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143. Mechanism of Exchange.—If full payment in gold or silver was to be made to foreign countries for commodities imported from them and if they were expected to make remittances of the precious metals for articles exported to them, it would be a troublesome and wasteful proceeding. As the paper money of one country will not be accepted for payment of debts in another, the precious metals will have to pass to and fro between nations to settle their indebtedness to one another. But the trouble is avoided and the expense is saved by the mechanism of bills of exchange which enable international indebtedness to be adjusted very easily. Importers who have to make remittances abroad, purchase the orders issued by exporters of commodities to foreign countries to their customers and send them to their creditors who realise the money from people on whom the bills are drawn and who are

themselves saved the trouble of making remittances to their own creditors. If a balance of indebtedness remains after such adjustment has been made, gold or silver may be remitted to make up the amount.[1]

The reciprocal liabilities of two nations, as of two individuals, are not equal and the balance may be paid as much by the remittance of a bill of exchange as of gold. Bills can be transferred by indorsement and are always available in all parts of the world for payment abroad. India, for instance, imports more from England than she exports to that country and may be expected to make a remittance of the balance due to her. But if India is a debtor to one country, she is the creditor of many whose Indian imports exceed their exports to India. The liability of India can thus be transferred to other countries, who are on the balance, her debtors. On account of England's extensive commerce, her well-established banking and the stability of her standard of value, London has become a great financial centre though to pre-eminence was shaken by the war and challenged by New York. And a bill on London is in universal demand and such bills are drawn, by arrangements with banks in all parts of the world, and become a convenient means of making payments.[2]

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1 "International like domestic transactions are settled in terms of money . the machinery for effecting payments differs in magnitude. not in principle. A merchant A in France, let us say, has imported coffee from M in Brazil, while B in France has exported the same value of silks to N in Brazil. Instead of sending money to M, and N sending it back to B, it is far simpler for A and B to settle with each other in Paris and M and N in Rio de Janerio. B accordingly writes an order, known as a bill of exchange, to N directing him to pay M, or, in technical language, B draws on N ; A buys this bill from B and remits (i. e. sends) it to M, who presents it to N and gets it cashed. Thus no money is exported and only one bill is drawn. Inasmuch as it is not always easy for the M's and N's to find each other in Rio de Janerio, and the A's and B's in Paris, the business of issuing and purchasing such bills has become the function of the banker and the bill broker."—Seligman Principles of Economics.

2 See Hartley Withers : Money Changing, page 111.

144. Foreign Exchange.—In domestic exchange, that is exchange between one part of a country and another, there are no complications of different currencies such as those which characterise foreign exchange. The currency is the same and the only thing that has to be done is that provision has to be made for making remittances of money for commodities purchased. In the busy season in India, rupees and currency notes, particularly the former, are sent from the port towns and commercial centres to the districts for payment to cultivators for their crops. But shroffs and banking houses finance this trade and remittances are made through the instrumentality of bills or 'hundies.' A merchant who wants to make payment to a dealer in a distant place, will buy from a local banker a hundi for the required amount and it will be duly cashed when presented and the remittance will thus be effected. This hundi system has been in vogue in India for centuries and the internal trade of the country has been financed through their means.

Before the days of railways, the post office and a unified currency, domestic exchange in India was surrounded with difficulties. The insecurity of carriage of bulky money from one place to another, was a risky matter and therefore hundi rates were likely to be high and liable to fluctuations. Even today, exchange between British territory and some Native States which have their own distinctive currencies is just like dealing in foreign exchange. But on the whole, internal exchange has been very much simplified by the facilities which are now available. Exchange, briefly, involves the question of the price of money in a particular place as expressed in the terms of the same currency, made available in another place and is governed by the expense of remitting money and is regulated by the intensity of demand and supply. The charge made by the banker is the price of the remittance.

To understand the nature of foreign exchange we have to extend this idea of domestic or internal exchange. The problem of foreign exchange is complicated by the differ-

ences in the currencies of different countries. The uncertainties relating to exchange between gold standard and silver standard countries or countries having a gold standard and those with paper currencies, are very great. The instability and fluctuations in the Indian exchange during the twenty years preceding the closing of the mints in 1893, may be recalled here as an illustration. Even as between two countries having the same monetary standard, however, exchange may not be stable under certain circumstances, and the state of the exchanges of European countries with one another and with the U. S. A., during and after the War, is an instance in point. There are several forces at work even in times of peace which affect foreign exchanges in different circumstances.

145. Rate of Exchange.—The rate of foreign exchange is the rate at which a definite amount of foreign money can be obtained and laid down in another country by the payment of the money of one's own country. A merchant who wants to make a remittance to a foreign country, inquires how much he will be able to pay to his creditor abroad with a definite amount of the currency of his own country. If the rate of exchange between London and New York is declared to be 4·866, it means that an English merchant will be able to remit that amount of dollars to America by paying one sovereign in London. Similarly if the exchange on Paris is 25·225, the same merchant will lay down that amount of francs in Paris by paying one sovereign to his banker in England.

The rate of exchange between countries having the standard coin made of the same metal, will be the relation between the weights of the metal of a particular fineness contained in the coins. This is the 'mint par of exchange.' and the actual rate will be above or below it as a country has to receive more or less from foreign countries than it owes to them. The fluctuations in the rate of exchange, are, however, limited to the 'gold points,' and of the two methods of remitting money abroad viz. sending gold and sending a draft, that one will be chosen which is less ex-

pensive. If the charge of remitting gold is lower than that of posting a bill, the former alternative will, of course, be preferred to the latter.[1]

The relative value of the English sovereign and the French franc is 25f. 22c. to the sovereign which is the mint par of exchange. If the cost of remitting one sovereign to Paris is say 7c., it will buy only 25f. 15c. in that city. A London merchant will prefer to buy a bill and send it rather than remit gold if he can obtain, say 25f. 18c. in Paris by the former method. This will, however, depend upon the mutual indebtedness of England and France which will determine the rate of exchange lying between the gold points.[1]

There can, of course, be no mint par of exchange between countries having currencies of different metals, but the general principles of foreign exchage given above apply also to the reciprocal relation between those currencies. The fluctuations in the rate of exchange will, in these cases, be great, but at any given moment, there will be a definite rate at which the currency of one country based on gold may be converted into that of another

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1 "When the number of people who want to send from Sydney to London is greater than the number of those who want to send money from London to Sydney, the latter will be in an advantageous position, and able to buy drafts on favourable terms, but the amount in Sydney that the sovereigns or cheques representing sovereigns in London will fetch cannot rise above the exact equivalent plus the cost of remitting coin from one centre to the other. When that point is reached the exchange is at gold point."—Hartley Withers: The Meaning of Money.

1 "It thus becomes evident that the foreign exchanges are a mechanism by which international indebtedness is settled between one country and another and that rates of exchange are the prices at which the currencies of the various countries are expressed relatively to one another. When the balance of claims between two places does not roughly agree gold has to be shipped to settle the difference, unless it can be met by what is called arbitrage which consists of dealings in bills on other centres. For instance, London may not have enough claims on Paris to set off the claims of Paris on it but may be able to fill the gap with bills on Berlin, or some other centre, which Paris may happen to want."—*Ibid.*

having a silver or paper basis. The market price of silver, and the quantity of the paper money in circulation will determine this rate of exchange. The exchange on India before 1898 and on China even at the present day, are instances in point.

There is one matter which it is necessary to make clear in this place, and it relates to the way in which foreign exchange is expressed. We may state either how much of foreign currency a unit of our national currency will buy or how much of our own currency will be needed to purchase a unit of foreign currency. These are two ways of expressing the same relation, but are likely to create confusion in the minds of the uninitiated. Thus in London the exchange on New York and Paris is stated to be £4·86 and 25f. 20c. respectively, but that on Bombay is said to be 1s. $4\frac{1}{8}$d. That is to say, while exchange in London with reference to the first two countries is expressed in terms of their currencies, that on Bombay is expressed in terms of British money. From this, the Indian end, we may say that one rupee will buy 1s. $4\frac{1}{8}$d. in London, but on the same principle, the exchange on Bombay would be expressed by being stated as Rs. 14-15-0, which is the amount of the Indian currency that the sovereign will buy in this country. But it is the practice to express both, the exchange on London and that on Bombay, in English currency and it will be, say 1s. $3\frac{22}{32}$d. and 1s. $4\frac{1}{8}$d.[1]

[1] The expressions 'high exchange' and 'low exchange' will prove misleading unless the sense in which they are used in particular cases is clearly understood. Exchange which is 'low' from one point of view, will be 'high' from the other view-point. A rate of exchange which is favourable from the point of view of importers is unfavourable from that of exporters. But exchange is said to be favourable to a country when it is in a position to receive more of a foreign currency for a definite amount of its own ; because it is in having to make excessive remittances abroad that the danger of exhausting national stocks of gold and embarrassing the banks of the nation by reducing the available backing for credit, is involved. National stocks of gold are jealously guarded as on them is reared the whole superstructure of a nation's system of credit.

146. Indian Exchange.—Having briefly stated the general principles of foreign exchange, we shall now proceed to describe the nature and the course of exchange in the case of India. The question of foreign exchange has played a very important part in the development of the currency and financial organization of India owing mainly to three causes: (1) First, the standard of value, as described in the last Chapter, was for many years, in India a silver standard. With the steady fall in the value of silver, the exchange with countries having a gold standard went lower and lower till the fall was arrested by the closure of mints in 1893. Exporters of goods from India benefited by a fall in exchange as they received more silver in India for the same quantity of gold obtained in foreign countries as the price of those goods. But importers of commodities from abroad and others who had to make remittances to foreign countries, had to pay more rupees to get the same quantity of sovereigns in London. With the adoption of a gold standard the problem of exchange lost its terrors and fluctuations in the rate were limited.

(2) The second factor in the situation has been the obligation on the Government of India to remit a large amount of money every year to the Secretary of State for meeting the Home Charges. Government was, therefore, deeply interested in bringing about a stability of exchange so that it might be sure as to the amount of rupees it must provide from year to year and might not have to suffer losses owing to the depreciation of the currency as compared with gold. Though a gold standard was established in India, it existed for purposes of exchange only, and the responsibility rested upon Government to maintain the value of the rupee at the fixed rate of 16d. to the rupee. Government altered the monetary standard and raised the exchange value of the rupee during war time to make it keep pace with the rising prices of silver. The Indian system is not automatic and the relation of the rupee with foreign currencies is not regulated by the course of the prices of silver and gold and the course of trade. The balance of trade does indeed determine in India, as else-

where, the fluctuations of exchange between the gold points, but if the exchange rises or falls beyond these limits, it is manipulated by Government by the cessation of the sale of Council bills in London or by the offer of drafts on London, as we shall presently show. The financial transactions of the Government of India in this country and in London, have thus exercised a powerful influence upon the development of the system of exchange in this country.

(3) But there is a third factor in the situation, viz the needs of the import and export trade of the country. The great Exchange Banks, no doubt, finance the export and import trade but the Secretary of State for India sells drafts on the Indian Government to place himself in funds in London and also for the convenience of importers of Indian goods into England. The latter want rupees for the payment of the price of Indian exports to be laid down in this country, and they can get the rupees either by purchasing the drafts sold by the Secretary of State for India or by shipping soveregins to this country and receiving rupees and currency notes in exchange for them from the Indian Government. The less expensive of the two methods is, of course, preferred by merchants and bankers.

The Secretary of State has often to sell Council drafts beyond his immediate needs for the convenience of trade, and he places himself in funds for the purchase of silver out of which rupees are coined here. Exchange on India will rise when there is a great demand for remittance to pay for Indian exports in the busy season and will fall in the slack season when exports are reduced and there are very small payments to be made to India. So long as the mints were open, people had the right to take

imported silver bullion to them and to have it coined into rupees. This import of silver into India competed with the sale of the Secretary of State's bills in London. But when the mints were closed and the relation between the rupee and the sovereign was fixed by law, Government practically got a monopoly of the supply of Indian currency, and foreign merchants could obtain that currency here either through the purchase of Council drafts or the shipment of sovereigns. It is only when the exports from India fall off owing to scarcity that the method of Council bills fails, and the Government of India has to sell reverse bills, and the Secretary of State meets his requirements by drawing upon his reserves, by borrowing or in other ways.

147. Development of the System.—The question of devising a convenient method of remitting funds to England has been often discussed since the beginning of the last century. "The manner in which such remittances could be defrayed with the greatest advantage, engaged the attention of the Court of Directors as long ago as 1813, when they explained to the Government of India that this might be effected either by advance to the public service which would be repaid by the British Government in England, or by remittances through private merchants who would pay money in England in return for bills on the Indian Government, or would receive advances in India from the Government, to be employed in the purchase of goods consigned to the United Kingdom ; if these methods failed to give sufficient remittances, bullion might occasionally be consigned to the Court of Directors."[1] All these different methods have been followed simultaneously or separately as was found necessary and convenient, and the Government of India have also remitted funds to England by buying bills in Calcutta. The method of selling

1 Report of the Fowler Committee : Index and Appendices, page 24.

bills of exchange on the Indian Government was found to be the best, and since 1862, reliance has been mainly placed upon it for drawing funds to London. "Sales of the Secretary of States's Bills were at first made (1862) monthly, and at a fixed rate of exchange. By a series of changes, fortnightly and then weekly sales were substituted for monthly ones; allotments to the highest bidder took the place of sales at a fixed price; tenders were invited (1876) for telegraphic transfers as well as for bills on India; reductions were made in the minimum fraction of a penny per rupee in the price at which tenders would be received; and applications were invited and received for bills and telegraphic transfers on dates intermediate between the regular fortnightly or weekly sales. Bills and transfers so sold are described as "Intermediates" or "Specials."[1]

"The method of transferring funds from the treasury of the Government of India to that of the Secretary of State on a large scale by the sale of Council drafts is rendered possible by the fact that India has ordinarily a very large trade balance in her favour. Except in years of very deficient crops and unfavourable trade, this balance is so large as to be only partly met by the remittances which banks and commercial houses are enabled to make to India by purchasing the Secretary of State's drafts; considerable portion of the world's debt to India remains to be discharged by other means. Before the closing of the Indian mints to the free coinage of silver in 1893, this supplemental remittance was effected by shipments of silver to India to be coined into rupees: since the closing of the mints it has taken the form of shipments of sovereigns which are received at the Indian mints and treasuries in exchange for rupees at the rate of 15 rupees to 1 *l.*"[1]

1 Report of the Chamberlain Commission: Appendices, page 217.

148. India's Balance Sheet.—The balance of trade is said to be favourable to a country when its exports to foreign countries exceed its imports from them. But this is a misleading phrase and the so-called favourable balance may mean the drain of a nation's wealth, while an excess of imports over exports may be indicative of growing prosperity. Great Britain imports more than she exports but this excess does not represent her indebtedness to foreign countries, but rather the payments made to her by them for services rendered. The exports of India, which are not paid for by imports, represent the payment this country has to make to the Secretary of State for 'home charges,' the profits of British firms and remittances of Europeans resident here. The true balance of indebtedness is found on a careful synthesis of various 'visible' and 'invisible' items of export and import, and customs statistics leave a big gap which a close scrutiny must fill up. The two sides of the Indian account will stand thus :—

(*a*) Imports of merchandise	(*a*) Exports of merchandise to pay for imports of merchandise and of precious metals and securities.
(*b*) " gold and silver	(*b*) Exports of merchandise to pay for Home Charges.
(*c*) " securities.	(*c*) Exports of merchandise in lieu of profits, commission, interest &c. payable abroad.
(*d*) Remittances to private individuals such as travellers &c. or institutions.	(*d*) Exports of merchandise to pay for investment of capital in India.
(*e*) Import of capital for investment.	(*e*) Remittances to individuals, for support of families &c.
(*f*) Services rendered to India by Government officials, banks, shipping and insurance companies &c	

As the exports of India are normally in excess of imports, the account sheet may be more conveniently presented thus :—

(a) Exports of merchandise.	(a) Imports of merchandise. (b) " precious metals. (c) Imports of securities. (d) " services in various forms rendered by Government servants, shippers, insurance companies, merchants, capitalists, manufacturers &c..

The Secretary of State's drawings by means of Council bills and telegraphic transfers are represented as imports. From the point of view of Indian exporters of merchandise this is true enough because they receive payment for their goods from Government treasuries in this country. But from the point of view of the nation, as a whole, Council drafts mean also a withdrawal of wealth from India inasmuch as the Government of India, representing the nation, meets the drafts of the Secretary of State who withdraws funds from this country for spending them in England. If the drawings are, therefore, shown on the credit side, an equal amount must be shown on the debit side also. In the statistical tables presented in Government reports, Council bills are invariably shown as imports of funds, but there is no corresponding entry on the other side showing an equal remittance from the Government of India to the India Office. Government transactions also are excluded from the statistics in connection with the balance of trade and this causes some confusion.[1] What, in reality, happens in this case is that the Secretary of State diverts to himself a part of the funds which otherwise would have come into this country. He is, as it were, an exporter of services for which he 'draws' upon India and the Indian Government on this side, pays his drafts. As the British trade balance

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1 See Appendix I to the Currency Department Report for 1913-14, where the whole question of the balance of accounts is dealt with in detail.

shows an excess of merchandiese imports explained by Englishmen's services to foreign countries, the Indian trade balance must show an excess of exports which pays for the services imported. The council drawings represent only a book account and to show them as an import of funds proves misleading. This fact will become clear if we suppose that the Indian Government purchased sterling drafts and thus transferred funds to London instead of being drawn upon by the Secretary of State as now ; the transaction then will have to appear as an export of funds and will have to be added to the export side of the account.

149. The Trade Balance:—As we shall presently show, the 'favourable' or 'unfavourable' balance of trade in any particular year must not be taken as a decisive indication of the position of the country with respect to its financial or economic prosperity or deterioration. For instance, the favourable balance or excess of exports in a given year, may mean the export of capital lent to foreign countries. In the case of India, however, an excess of exports or a 'favourable' trade balance, is a permanent feature of the economic condition of the country, and it has given rise to a prolonged controversy. The excess has been spoken of as a 'drain' of India's wealth and as an important cause of India's poverty. The drain has, therefore, been represented by Indian politicians and economists as a 'tribute' paid by India and its reduction has been recommended as a remedy for the improvement of the material and moral condition of the people of this country.

On the other side, a strong protest is made against this method of representing the favourable trade balance, and the excess of exports is shown to be the price of the benefits India receives from British rule and from the use

of cheap capital; and its characterization as a 'drain' or 'tribute' is resented as an unwarranted exaggeration. As we have shown in the two balance sheets presented above, the excess of exports can be easily and technically accounted for. It is not, however, a question of mere accounting and we have to go deeper into the matter. If India imports capital and exports and utilises the services of soldiers, administrators, merchants, shippers, educationists and others, she must pay for those services as other nations do under similar conditions. But the question is, whether India cannot and should not engage her own men for the above purposes on a steadily increasing scale, and to that extent, reduce the payments which have to be annually made abroad. To reduce the charges India has to pay abroad by enabling the Indian people, as far as possible, to do what outsiders are doing for them to-day, is the direction the policy of the State has to follow and the Government of India is being constantly urged to adopt that policy.[1]

150. Liquidation of the Balance.—The ways in which the abnormal exchange conditions created by the War were met by Government, will be explained presently. But it will not be inappropriate briefly to refer here to and illustrate the manner in which India's balance of accounts was made up during the past three or four years as it throws an interesting light upon the 'invisible' exports from India and the general exchange system. The net exports of merchandise from India were comparatively very large during the latter part of the war period which meant huge foreign indebtedness to this country. To add to this there were the recoverable disbursements made in

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1 See the works of R. C. Dutt and Dadabhai Navroji's 'Poverty of India', and the Author's "Gokhale and Economic Reforms", pages 41–44.

India by the Indian Government on behalf of His Majesty's Government; and thus foreign liabilities to India were enormously increased though India's contribution to the expenses of the war was, to a certain extent, set off against the amounts due. The disbursements were as follows:—

			£
1916-17	...	...	38,391,000
1917-18	...	...	69,204,000
1918-19	...	...	100,883,000

Let us take the year 1916-17 as an illustration to show how foreign indebtedness to India was actually liquidated through funds provided by Government agency and private invisible exports. The balance of trade to be liquidated in that year was Rs. 90·27 crores. "This means that the number of rupees that were seeking to be exchanged into external currency, such as sterling, dollars, yen &c., in order to pay for India's imports, were outnumbered by the external currency, seeking to be exchanged into rupees in payment for India's exports, to the extent of about 90 crores. Speaking very generally, it may be said that the necessary balance of rupees has been found mainly in two ways—(A) by rupees placed at the disposal of trade by Government, and (B) by rupees brought forward by people in India who have had to make remittances elsewhere, *i. e.* who have had to turn their rupees into external currency, for some purpose other than in payment for an actual import of goods."[1]

Remittances through Government amounted to about 59 crores, thus:—

(1) Council Bills	...	47·07 crores
(2) Net payment of money orders and postal orders in India	...	3·30 „

1 Report of the Currency Department for 1916-17.

(3) Telegraphic transfers &c. issued on India from Persia and elsewhere	...	4·50	crores
(4) Paid to a Bank in India on behalf of East African Government which repaid in London	...	5·67	"
(5) Remittances to India from certain Crown Colonies	...	·20	"
(6) Currency notes returned from Mesopotamia and encashed in India	...	·30	"
Total	...	59·04	"

This amount still left a balance of about 31 crores unaccounted for. And the Controller of Currency was able to ascertain through the courtesy of Exchange Banks, the extent and the purpose of the remittances made from India during the year 'other than remittances made in payment for imports.' He could, in this way, account for no less than 25 crores of rupees. There were thus remittances from India for investment into the British War Loan, Exchequer Bonds and Treasury Bills, their amount being in the neighbourhood of 7½ crores. Many people resident in England and holding shares in Indian companies realised their profits due to general appreciation in values and remitted them to England. Companies operating in India but domiciled in England, similarly remitted their profits through the Banks and they were estimated at about 7½ crores. To this may be added credits in foreign countries due to India or the amounts of the post-poned remittances of the values of some Indian exports; and the tale of the liquidation of the trade balance is completed. These credits in foreign countries have been recently large and the account we have given above of the balance of trade for 1916–17 more or less covers the position in the succeeding years.[1]

1 "........... it is a reasonable inference that, as was surmised in my report for 1917–18, private remittances have not, in recent years, served to the same extent as under normal conditions, to finance the excess of exports over imports and that there is a substantial balance in India's favour which has still to be liquidated."—Report of the Currency Department for 1918–19.

The following table will show the chief 'visible' items:

	Average of 5 years ending 1908-09	1911-12	1912-13
Imports of Merchandise— Ex-government stores	74,567	92,383	107,333
Net imports of—			
Gold	8,589	25,178	25,052
Silver	5,405	3,528	4,383
Enfaced rupee paper	367	707	353
Interest on—			
Enfaced rupee paper	373	287	253
Total import ...	89,301	122,083	137,374
Exports of Merchandise—			
Ex-government Stores	110,206	151,897	164,05[illegible]
Net exports of—			
Enfaced rupee paper	7	...	...
Total Export ...	110,2[illegible]3	151,897	164,059
Net Export ...	20,912	29,814	26,685
Council bills paid in India through Treasury	22,207	24,789	25,888
,, Gold standard Reserve ...	1,233	...	...
,, Currency	267	1,988	...
Funds supplied by Government to finance wheat purchases		...	...
Reverse bills paid in London	1,607	...	...
Net ...	22,[illegible]00	26,777	25,888
Balance of trade in favour of India ..	...	3,037	797
Balance of trade against India	1,188	...	...

in India's balance sheet :—

(In thousands of £ sterling)

1913-14	Average of 5 years ending 1913-14.	1914-15	1915-16	1916-17	1917-18	1918-19
122,166	97,232	91,953	87,560	99,748	100 283	112,589
15 550	19,246	5,637	—764	2,764	14,306	15
4,163	4,806	6,676	3,717	—2,214	971	38
974	685	238	603	347	552	...
240	297	228	213	195	185	173
142,866	122,262	104,732	91,329	100,873	116,297	112,915
165,919	149,411	121,061	(a) 131,587	160,591	161,703	169,242
...	104	...	...	...	...	64
165,919	149,515	121,061	131,587	160,591	161,703	169,706
23,053	27,253	16,329	40,258	59,718	45,506	56,791
28,915	24,294	6,594	4,980	8,383	23,781	6,263
2,150	2,168	600	7,533	4,225	1,377	...
...	1,107	...	8,190	18,984	8,658	14,346
..	...	...	2,883	...	.	...
...	31	8,707	4,893	...	...	4,720
31,065	27,538	1,513	18,643	31,672	33,816	15,839
.	...	17,842	21,615	28,046	11 590	40,902
8 102	285	...	...	...	...	..

(a) Includes £ 4,599,300 being the value of wheat exported on account of Government during 1915-16.

The same balance of trade is exhibited in a clearer

Year.	Gross exports of private merchandise.	Gross imports of private merchandise	Net exports of private merchandise.	Imports of Council Bills.
	(1)	(2)	(3)	(4)
1910-11	2,09,88	1,29,35	80,53	39,43
1911-12 ...	2,27,84	1,38,57	89,27	40,17
1912-13	2,46,09	1,61,00	85,09	88,13
1913-14	2,48,18	1,83,25	65,63	46,60
1914-15	1,81,60	1,37,93	43,67	—2,27
Average for 5 years ...	2,22,86	1,50,02	72,84	32,55
1915-16	1,97,38	1,31,99	65,39	23,71 (a)
1916-17	2,45,15	1,49,62	95,53	47,07
1917-18	2,42,56	1,50,42	92,14	50,72
1918-19	2,53,85	1,59,03	84,82	23,13

		1914-15.	1915-16.
(a) Council bills and transfers	...	10,79	31,05
Reverse Councils	...	13,05	7,34
		—2,27	23,71

way in the following table :—[1]

(In lakhs of rupees)

Funds and Treasure.					Balance Net export transactions — Net import transactions —
Gold sovereigns (Net).	Gold bullion (Net)	Silver bullion and coin (Net).	Government securities (Net).	Total 4 to 8.	
(5)	(6)	(7)	(8)	(9)	[illegible]
12,24	11,74	8,61	2,43	74,45	+6,05
27,34	10,42	5,29	1,06	84,28	+4,9[illegible]
26,43	11,15	6,57	53	83,51	+1,58
11,34	11,89	6,24	1,12	77,28	—11,[illegible]
1,65	6,80	10,01	35	16,54	+27,12
15,80	10,42	7,33	1,10	67,20	—5,64
—2,26	1,54	5,58	90	29,05	+36,74
1,77	11,51	—3,32	52	57,55	+37,9[illegible]
6,42	13,52	69	83	72,18	+19,9[illegible]
...	—2,49	1,02	—70	21,66	+63,16

1 See Report upon the operations of the Currency Department for 1918-19 and Review of the Trade of India, 1918-19.

151. Adjustment of Trade Balance.—The above two tables will give a sufficiently clear idea of the way in which the national debits and credits are balanced. During the five years preceding the outbreak of the War, the excess of exports over imports of private merchandise was, on an average, Rs. 78·27 crores. This amount was due to India in payment for her exports, and it was paid partly by exports of gold and silver to this country, and the balance was diverted by the Secretary of State for India by means of the sale of Council bills which were paid by the Government of India in this country. The proceeds of these sales were used to meet the 'home charges,' to buy silver for the coinage of rupees in India, for the repayment of debt and for capital expenditure.[1]

It must be borne in mind that the balance of trade is never settled within any period of twelve months like that of the official year, which is made the basis of our calculations, but if longer periods are taken, the adjustment is seen to have taken place. In the case of India, besides the 30 crores that are annually remitted to England on account of 'home charges,' a large amount, variously calculated, goes out of the country in payment of profits of companies and earnings of individuals. Taking the British capital invested in this country[2] in a variety of industrial and commercial enterprises at Rs. 750 crores, we may safely assume that the interest and profit on this amount cannot annually be less than Rs. 40 crores. If

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1 "The annual exports from India are generally in excess of her imports, and an adjustment of the value of the net exports is effected partly by remittances through Government, partly by actual shipment of coin and bullion and partly in other ways. The remittances through Government are effected by means of the Council bills and the telegraphic transfers sold by the Secretary of State, which are promises by Government to pay on demand, at the treasuries in Calcutta, Madras and Bombay, the amounts specified in the bills. The bills thus serve the double purpose of placing the Secretary of State in funds to meet his outgoings in London, and of enabling trade to make a remittance of funds in the opposite direction from London to India."—Report of the Currency Department for 1913–14.

2 See H. F. Howard: India and the Gold Standard, page 95.

the excess of exports over imports is not equivalent to those 40 crores *plus* the 30 crores of the home charges, as one would expect, it must be assumed that a part of the above interest and profit is spent in this country and remains to be invested in the expansion of the trade and industry of India.

Normally the debits and credits of India are thus annually equalized through the imports of bullion and the Government's supply of funds, a portion of the profits of companies &c., being retained for investment as capital instead of appearing as net exports. But when the latter sought an outlet for investment in England during the past six years, the equilibrium was upset and the balance turned in favour of India. The following table makes this position clear:—

	Excess of Net Exports of Merchandise over Net Imports	Remittances to India through Government.	Private Net[1] Imports of Treasure.	Balance in favour of India.
Average of 5 years ending 1913–14 ...	78·25	41·20	36·0	...
year 1914–15 ...	43·66	−1·52	18·46	24·72
1915–16 ...	65·89	24·76	10·48	30·15
1916–17 ...	95·53	59·05	2·04	34·45
1917–18 ...	92·14	81·75	4·55[2]	5·84
1918–19 ...	84·82	58·05	·79	25·98

152. Council Bills—The Secretary of State for India can conveniently draw funds from this country by selling

1 The imports of rupee paper are neglected and the figures in the table are only approximate.

2 18·37 crores worth of gold acquired by Government not included.

his drafts, and exchange banks buy those drafts to procure money in India from the public treasuries to finance exports. With funds thus obtained, these banks purchase bills of exchange drawn on foreign importers of Indian produce and recover their money in England, which is once more used to buy Council drafts. The rate for the Telegraphic Transfers is, of course, a little higher than that for bills and the advantage of the Telegraphic Transfer is that money is immediately available to buyers in India. The rate of exchange depends upon the demand for Council drafts which is regulated by the course of Indian exports. If these are heavy, the exchange rises, though it must be below the gold point. But when owing to famine or other causes, Indian exports fall off, there is no demand for Councils, and there is a demand for remittance in the opposite direction. Importers of foreign goods into India, cannot obtain bills on London and as the Indian currency consists mainly of silver, Government is called upon to supply gold for remittance purposes as they have to discharge the obligation of supporting exchange. Government, therefore, sells drafts on London or 'Reverse Councils', as they are called, and the Secretary of State meets them from the funds that are at his disposal, the treasury balances or the Currency Reserve or the Gold Standard Reserve, as may be convenient.

Experience gained in 1908-09 and in the years of the War, showed how an adverse balance of trade could be met by the release of gold in India and more particularly by the sale of sterling drafts. In the course of the years 1916-17 and 1917-18, the balances of the Government of India were so depleted by the disbursements they made in this country on behalf of His Majesty's Government that the Secretary of State had to restrict his sale of Council bills. Funds could not then be brought out to India and gold from the Currency Reserve had to be released to meet the demand for currency which was not satisfied with the extraordinarily large issues of rupees and notes which had been made. The history of the exchange transactions of 1908-09 and of the years of War is, therefore, very instructive.

Towards the close of 1907, owing to a financial crisis in America and a failure of rains in this country, the world's money market became tight and the Secretary of State could find no buyers for his Council drafts except at abnormally low rates. On the 6th November, tenders dropped to 1 s. $3\frac{23}{32}$ d. and the exchange steadily went down to 1 s. 3 d. These quotations were below the point at which it becomes profitable to export sovereigns from India. Government hesitated as to the course of action to be taken and at first released small quantities of gold in exchange for rupees; but as the stock of gold was limited, they had to sell sterling drafts to the extent of £ 8 millions till the crisis was over and exchange again became normal. A similar procedure had to be followed in 1914–15, in 1915–16 and in later years when also reverse councils were sold in India for many weeks.

The way in which remittances were made to the Secretary of State in 1916-17, throws an interesting light, as we have shown above, upon the system of exchange and financial operations of the Government of India. That Government had to spend large sums in this country on behalf of His Majesty's Government who repaid those amounts to the Secretary of State in London. This was tantamount to the drawing of funds by the latter by means of Council drafts. But the difficulty was that the demands of trade threatened to remain unsatisfied and gold could not be shipped to India as might ordinarily have been done. The needs of War were paramount and gold in London had to be conserved. Council drafts beyond the budget calculations had, therefore, to be sold and met in this country from increased supplies of notes and of rupees. It was estimated at the beginning of the year that out of the £ $22\frac{1}{2}$ million required by the Secretary of State, £ 18·6 million would be paid in London by His Majesty's Government and Council bills would be drawn upon the Indian Government to the extent only of £ 3·9 million. The recoverable war expenditure, however, rose to £ $38\frac{1}{2}$ million and an acute trade demand was met in London by the sale of

Council Bills to the extent of £ 33 million. The total amount thus transferred to London went up to £ 71½ million. The two-fold strain of increasing war outlay in India, coinciding with a strong trade demand for remittance to India, was met in three ways: (1) large Imperial and Provincial surpluses enabled Government to supply £ 33 million from treasury balances; (2) the equivalent of £ 19½ million new rupee currency was made possible by the purchase of silver in England; and (3) £ 19 million were withdrawn from the Currency Reserve and were invested in England.

Of the £ 71½ million thus received by him, the Secretary of State was to use £ 21·7 million for his ordinary expenditure, £ 16·2 million was spent on the purchase of silver and £ 19 million was invested in the Paper Currency Reserve. £ 4·3 million, mainly the profit on rupee coinage, was invested on behalf of the Gold Standard Reserve and the balance left, was devoted to the discharge of debt. These operations may be exhibited in tabular form thus:—

Government of India.	Million £.	*Secretary of State for India.*	Million £.
Treasury Balances ...	33	Ordinary Home Charges...	21·7
Rupee Coinage	19½	Purchase of Silver ...	16 2
Paper Currency Reserve	19	Investment in Paper Currency Rererve... ...	19
		Investment in Gold Standard Reserve	4 3
		Repayment of Debt ...	10 3
Total ...	71½	Total ...	71·5

153. Remittance Liabilities.—The Government of India was hard put to it to devise means to supply money in this country to defray war expenditure on behalf of His Majesty's Government and to meet the Councils sold by the Secretary of State for the convenience of trade. These liabilities of the Indian Government reached £ 111 million in 1917-18, and of this amount, £ 66 million represented outlay on behalf of the Imperial Government. The huge demand was met by provision of money out of the proceeds of the war loan and of treasury bills, out of surplus revenue

and fresh coinage of rupees and by investment of part of paper currency reserve in London.

While on the one side, the Government in this country experienced great difficulty in providing funds for defraying war expenditure on behalf of the Imperial Government, on the other side, the Secretary of State's treasury was flooded with money recovered from His Majesty's Government and obtained from the sale of council drafts. Out of the funds thus coming into his hands, the Secretary of State made investments on behalf of the Paper Currency Reserve and paid a part in lieu of India's war contribution of £ 100 million. A special reserve of £ 20 million was like-wise set apart, to be drawn upon for capital outlay in the future.

The effect of the large remittances to England has been the transference of Indian funds on a large scale to that country. Such transference took place regularly before the war. But the expansion of our paper currency and the growth of the gold standard reserve fund have facilitated the remittance of funds to England and their investment there on an unprecedented scale. The total amount of the investment of Indian funds in England owing to war conditions, exceeded Rs. 150 crores. India has thus materially assisted the Imperial Government by lending its funds and by relieving its liabilities in connection with war expenditure in this country.[1]

154. Regulation of Council Drawings.—Usually the Secretary of State sells a larger amount of council drafts than are necessary to yield him the funds that are required to meet the 'home charges.' He draws upto the utmost limit of the cash balances in this country and also from the Paper Currency and Gold Standard Reserves. It is contended that requirements of trade have got to be met and the demand for Council drafts must be satisfied to the full limit. If this is not done and the sale of Council bills was restricted to the amount of home charges, sovereigns would have to be imported into India only to be shipped

1 See Sir William Meyer's speech in introducing the Financial Statement for 1918-19.

back for the purchase of silver. The Secretary of State, therefore, sold freely and accumulated large amounts of Indian gold in London. These funds were partly invested in securities or lent for short periods to banks and were partly used for repayment of debt. This policy of drawing away Indian gold beyond the requirements of the home charges, was strongly criticised in the press here and in England.[1]

The India Office met these charges by pleading certain exceptional circumstances as the cause of the accumulation of large balances in London and by defending its system of the sale of bills on the ground of convenience and economy. The Chamberlain Commission held on this point that though "the India Office perhaps sold Council Drafts unnecessarily at very low rates on occasions when the London balance was in no need of replenishment," it could not recommend any restriction of "the absolute discretion of the Secretary of State as to the amounts of drafts sold or the rate at which they are sold, provided that it is within the gold points." The Commission, however, distinctly stated that general public interests ought not to be subordinated to the demands of trade.

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1 "An Indian correspondent" wrote in the *London Times* in November, 1912 as follows :—

"It means that many millions sterling of Indian money have been improperly withdrawn from India. They represent sums extracted from the taxpayer in excess of the requirements of the State ; capital withdrawn from India for use in London and there used, not in pursuit of Indian interests but for the convenience of joint stock banks trading on inadequate gold reserves....There is therefore no justification for the sale of a single bill by the Secretary of State beyond the actual amount which he needs to discharge his obligations in London. But these excessive sales of bills are a convenience to the exchange banks which have to remit funds to India, and it is often cheaper for them to buy bills than move bullion. They also afford a means of obstructing the natural flow of gold to India, and in this way allay the terrors of those joint stock banks who realise the inadequacy of the London gold reserves and are not averse to protecting them at the expense of the India taxpayer."

It is necessary to point out here that India's funds, its revenues, reserves and treasury balances, which are located partly in this country and partly in London, constitute one national fund, and two distinct accounts *viz.* the revenue account and the capital account are kept, the first dealing with the current income and expenditure of Government and the second with capital transactions. The opening balance which the Secretary of State and the Government of India must have at the beginning of the year is estimated at 6 crores of rupees in London and 18 crores in India. All funds, from whatever source they come, go into these balances, and payments are made out of them. An estimate is formed early in the year as to the position of the balances, the amount that must be borrowed here and in London for financing the public works programme and the repayment of temporary and permanent debt and the funds that the Secretary of State may draw from India by the sale of Council drafts. This estimate is rarely adhered to and the ways and means programme is modified in the course of the year, larger sums being drawn from India than those estimated. Thus during the five years 1901-02 to 1905-06, about 50 crores of rupees were drawn in excess of the budget provision, and 63 crores was the excess during the four years 1909-10 to 1912-13. (There was a deficit of about 10 crores in 1907-08 and 1908-09 owing to failure of the monsoon and a monetary crisis in America.)

155. Rate of Council Drafts.—The actual distribution of Council drawings over the twelve months of the year, is regulated according to the course of the Indian trade which is of a seasonal character. A demand for drafts on this country arises when remittances have to be made in payment of its commercial crops. The months

of brisk export trade constitute the 'busy season' the remaining part of the year being the slack season.[1]

Council drafts can, of course, be sold on advantageous terms during the busy season, but monsoon conditions and the course of export trade, can not be anticipated, and the Secretary of State sells his drafts in both the seasons, as he wants funds to meet various obligations during the first as well as the second half of the financial year. The gold value of the rupee being fixed by law and the Secretary of State for India having bills of exchange worth crores to offer annually to draw funds to London, he is in a position to fix the rate of the Indian exchange, of course, within the obvious limits. And when exchange was at 16 d. he would after to sell rupees to any amount at 16⅛d., the rate being lowered when the demand for remittance was slack. The proceeds of the council bills sold are devoted to (1) current outgoings, (2) transfer to Currency and Gold Standard Reserves, if bills have been met in India out of these reserves, (3) repayment of debt, temporary and permanent, and (4) avoidance of debt.

We are not directly concerned here with Government balances and borrowing operations. It will be sufficient to remark that for the capital programme of each year, loans are floated in London and in India, and the larger the amount the Secretary of State can draw, the smaller will be his borrowings in the London market. How the draw-

1 "The Indian year, as is well known, is divided broadly into two seasons : the busy season, extending roughly from the 1st October to the end of March, and the dull season, extending from about the beginning of April to about the end of September. Thus the financial year begins with the dull season, during which the demand for the Secretary of State's bills as a means of remittance of funds by the public from London to India is less strong than during the autumn and winter.' — Chamberlain Commission's Report, Appendix VII.

ings by means of Council drafts are distributed over the year in a normal year and may be disturbed in an abnormal year when 'reverse councils' have to be sold in India, will be clear from the following tables :—

In lakhs of rupees

	1912–13	1913–14	1916–17
April	2,72	3,92	1,80
May	2,83	83	2,95
June	2,09	1,50	1,39
July	2,82	1,31	1,20
August	2,01	1,70	1,54
September	2,22	4,09	1,49
October	3,53	6,12	4,14
November	3,20	4,11	10,59
December	4,81	5,90	8,45
January	5,37	6,80	5,94
February	4,41	4,91	4,67
March	2,49	3,41	4,88
	38,50	46,60	49,04

Drafts sold in 1915–16 and in 1918–19.

Month.	Sterling transfers on London (in thousands of pounds)		Council bills and telegraphic transfers (in lakhs of rupees.)	
	1915-16	1918-19	1915-16	1918-19
April ...	......		1,53	4,35
May ...	......		1,03	5,98
June ...	651		17	5,09
July ...	3,77		8	5,75
August ...	815		23	4,53
September ...	50		2,17	2,48
October ...	......	5·315	2,25	2,59
November ...	......		2,02	14
December ...	......		3,28	......
January ...	......		5,26	......
February ...	......		6,02	......
March ...	......		6,33	......
Total ...	4,893	5,315	30,37	30,91

The financial year 1915-16 opend with a weak exchange and small quantities of bills were sold in the first two months. In the next three months the sale practically ceased and sterling transfers had to be sold on London. In April, tenders had been accepted by the Secretary of State at 1s. $3\frac{15}{16}$d. for bills and the rate in May fluctuated between 1s. $3\frac{15}{16}$d. and 1s. $4\frac{1}{32}$d. The exchange steadily rose to 1s. $3\frac{31}{32}$d. towards the close of August and to 1s. $4\frac{1}{8}$d. in December. Sterling drafts were sold by the Government of India at 1s. $3\frac{29}{32}$d. per rupee. In the year 1916-17 the exchange ruled high. In 1918-19, there was a good demand for councils during the first seven months of the official year, but from November onwards a demand for drafts in the opposite direction was steadily maintained. As we have already explained, the Government of India had to spend a very large amount for His Majesty's Government who repaid the amount in London to the Secretary of State. It was difficult, with the depleted treasury balances in India, to meet Council drafts for which demand was exceptionally heavy. As a result, exchange went up, those desiring to make remittances to this country having to pay more pence than usual while a rupee paid down in India could buy a larger amount of pence in London.

156. Government and Exchange.–We have shown above how exchange between two countries is expressed, and indicated what part the India Office plays in regulating the Indian exchange. The rate of foreign exchange is ordinarily the relation the standard coin of a country bears towards those of others. In countries where gold is adopted as the measure of value for exchange with other countries and the internal demand for currency is met by silver tokens or paper, the relation of the national currency with gold is fixed by Government. The experiment of such a system of a gold exchange standard having proved successful in India, it has been adopted in Mexico, the Straits, Philipines and Porto Rico.

Under the ordinary system of exchange the rate fluctuates between the 'gold points' and is regulated by the

relation between the demand for and the supply of bills of exchange or the import and export of commodities. The whole business in managed by banking houses and the Government has little to do with it. In countries where the gold exchange standard prevails, it is otherwise. There the Government is bound to maintain the artificial rate of exchange it has fixed between gold and the token currency.

The Government undertakes, under this scheme, to supply currency at both ends and thus to maintain the parity of gold and the tokens. It maintains exchange funds inside and outside the country and sells drafts both ways as necessity requires. The foreign importer of Indian goods will prefer council drafts to gold remittance because the former are cheaper. The Indian exporter is able to negotiate his bill at a trifle less than the fixed rate of exchange and the Indian importer of foreign goods buys the sterling drafts by paying a little more than that rate. As normally India has a favorable balance of trade, little difficulty is experienced in maintaining the legal rate of exchange.

157. Abnormal Rise in Exchange.—The exchange standard is, however, threatened when Government is not in a position to maintain the artificial value of token coins in times of trade depression or financial difficulties. The difficulties experienced by the Indian Government in 1907–08 and on the outbreak of the War, have been already described. Danger may assail the exchange system at either end. On account of a large excess of Indian exports over imports, the demand for the Indian currency rises, the exchange rate goes up and, owing to monetary stringency, sufficient quantities of council drafts cannot be sold. Or, owing to a diminution in exports, importers do not get an adequate quantity of sterling drafts and exchange falls, the rupee being able to purchase a smaller number of pence.

In the second case, rupees seek gold but do not get it at a reasonable price and Government, which is bound to maintain the legal rate of exchange, sells drafts on London

for rupees offered to it. The first case is not comparatively so inconvenient as under it Government has only to coin fresh rupees or issue currency notes. But there is another contingency which was little contemplated in the discussions of the Indian currency system which were carried on for two generations. The problem to be faced was all along the continuous fall in the price of silver and the consequent continuous decline in the gold value of the rupee. But few dreamt that a time would come when the value of the silver contents of the token rupee would go above its face or legal value.

But the unexpected did at last happen. In 1916-17, there was an abnormally large balance of trade in favour of India, the sellers of sterling exchange greatly outnumbered the buyers, and as there was little import of gold to fill up the gap, the former had to accept any price in rupees that was offered for their bills. The supply of export bills, that is, of sterling, being larger than the demand, they fetched a smaller price in rupees, which is the same thing as saying that the rupee came to be worth more and equivalent to more than 16 d. Or, to put it in another way, the remitters of funds to India for the excess exports of this country, did not find a sufficient number of sellers of rupee bills and had to pay more for each rupee they wanted to lay down in India. And thus the exchange value of the rupee rose. In January 1917, the exchange rose to heights that had never been reached since the sterling value of the rupee was fixed. An attempt was made by the exchange banks to arrive at an agreement not to sell telegraphic transfers on London above 1 s. 4 d., but it failed and exchange transactions are reported to have been put through at as high a rate as 1s. 6d.

The soaring exchange was brought down to 1 s. 4 d. by the intervention of the Secretary of State who induced the London offices of the Exchange Banks to fix their Indian branches to a rate of 1 s. 4 d. for T. T.s on London. Whatever resources were available in India, had to be first devoted to the financing of exports of Imperial importance in view of the prosecution of the war. The Exchange

Banks promised to give prominence to such exports and loyally carried out their undertaking. Council drafts were sold during 1917 only to the chief Exchange Banks and a few firms of special eminence on the Approved List who agreed to sell drafts at prescribed rates. The refusal of the Banks to buy bills without full cover[1] caused great inconvenience to export merchants but the need of financing exports of urgent national importance was paramount and other interests were subordinate.

In the crisis of 1907 when our currency system was subjected to a severe trial, the country suffered from a low exchange, and sterling drafts on London were sold as had to be done again in 1915 and occasionally in later years. But now the exchange soared high and the large quantities of rupees and notes supplied in 1917 were not adequate to the demand. In the one case it was plethora of Indian currency and in the other, insufficiency of it, which upset the exchange organization. We have shown on a previous page how heavy has been the outlay of money which the Government of India has had to undertake on behalf of the Imperial Government. The Indian Government did its level best to satisfy the demand for currency by issuing notes and coining fresh rupees. Owing to the cessation of gold imports, the strain fell on silver which was at the time in universal demand for coinage purposes. The gross circulation of notes which was 60·26 crores in January, 1915, 62·42 crores in January, 1916, and 84·36 crores in January, 1917, rose to 108 crores in the September of the last year.

1 When banks purchase export bills, they have temporarily to part with their funds and in times of monetary stringency, they are unwilling to discount these bills unless they are supplied with the means to make up their depleted resources. These means are the offers of rupees made by importers and others who want to make remittances abroad, and the sales by banks to them of the sterling drafts 'cover' their purchases of export bills. Merchants who dealt both in import and export business, could readily provide 'cover' required by banks while those who only exported, were at a serious disadvantage in not being able to sell their bills to them.

The net coinage of rupees amounted to 10·14 crores in 1913–14, to 13·5 lakhs in 1914–15, minus 2·07 lakhs in 1915-16, to 29·38 crores in 1916–17, 22 64 crores in 1917–18 and to 51·53 crores in 1918–19. The exchange could, however, be maintained at 16 d. so long as sufficient currency could be supplied even to take the place of gold imports which had practically ceased.

158. Dear Silver and Exchange.—But to add to these difficulties, the price of silver went up to an unexpected height.[1] The rise was at first small and slow, but later on, owing to heavy demand every where, particularly in China and India, it became rapid and steep Before the war, the price of silver was about 24d. an oz; in Feburary, 1920, it rose to 89 d. per ounce! The white metal which was so long neglected and contemptuously treated, had its revenge. Silver was in demand everywhere for currency purposes. Each nation conserved its gold and multiplied paper currency. The daily expenditure of millions for the conduct of the war caused a tremendous expansion of currency and silver had its turn. The metallic value of the rupee now exceeded its nominal value and the Government had to

1 The highest and the lowest prices of standard silver per ounce in London were as follows —

Year.	Price in Pence.		Year.	Price in Pence.	
	Highest.	Lowest.		Highest	Lowest
1914 ...	$27\frac{3}{4}$	$22\frac{1}{4}$	1918 April.	$49\frac{1}{4}$	$45\frac{1}{4}$
1915 ...	$27\frac{1}{4}$	$22\frac{5}{16}$	1918 Dec..	$48\frac{3}{4}$	$48\frac{7}{16}$
1916 Jan...	$27\frac{5}{16}$	2[illegible]$\frac{11}{16}$	1919 May.	58	$48\frac{9}{16}$
1916 Dec...	37	$35\frac{13}{16}$	1919 Aug.	$61\frac{3}{4}$	$55\frac{3}{4}$
1917 June..	$39\frac{1}{8}$	38	1919 Sept.	64	59
1917 Aug..	46	$40\frac{1}{8}$	1919 Oct...	$66\frac{1}{2}$	$62\frac{3}{4}$

issue ordinances against the melting of the coins and the export of silver. It also prohibited the private import of silver and acquired the imports of gold at stated prices based on the exchange value of the rupee. The Secretary of State reduced the amount of the Council drafts to 80 and to 60 lakhs and even to 30 lakhs per week in view of the monetary stringency in India.

The advance in the price of silver necessitated alteration in the rate at which the Secretary of State used to sell rupees, viz., the Indian exchange. Owing to the high price of silver, the rupee was no longer a token: its intrinsic value was higher than its face value. Instead of yielding a profit, the issue of rupees caused a loss, if the Councils were sold at the old fixed rate. The question here arose, whether Government was not expected, under its exchange standard system, to maintain the rupee at the 16d. level and to make up the loss by drawing upon the Gold Reserve. The fund built up out of the profits of rupee coinage and expressly set aside for the maintenance of exchange, it was contended, was the source from which the loss should be made good.

The Finance Member met this contention with the plea that the Gold Reserve was never intended to serve the purpose for which it was proposed it should be used, that charging the loss caused by the high price of silver to that Reserve would entail indefinite responsibilities and liabilities and that whatever burden exporters had to bear was counter-balanced by the advanced prices of Indian produce. He defended the Secretary of State's action in enhancing the rate of exchange to 17d. on the ground that he could not sell his drafts at a price which meant a loss of about one penny for every rupee that was supplied.[1] It was a step

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1 Sir William Meyer's speech introducing the Financial Statement for 1918-19.

most reluctantly taken, he said, but, all things considered, it was inevitable and perfectly reasonable.[1]

The disturbance caused by the titanic war, to trade and industries, affected the exchanges all the world over. The normal balance of trade in the case of some of the belligerent countries has been violently upset and England has not been able to maintain its exchange with the United States of America in spite of large borrowings in that country. In view of the fluctuations and uncertainties of the exchanges of other countries, the disturbance which the Indian exchange has suffered, must be regarded as a common lot shared by India with others and though there is no doubt that, on the whole, the financial and currency mechanism of India was skilfully handled, when it is remembered that the machinery was placed at the disposal of the Imperial Government for enabling it to prosecute the War with vigour, Government can not be complimented on the way in which they altered permanently the old ratio between gold and the rupee and dealt with the imports of gold and the sale of reverse councils.

159. Course of Exchange.—We need not repeat what we have stated above with respect to the methods of expressing the rate of exchange. Here we give only typical illustrations of those methods which will also

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1 When the old relation between the rupee and sterling was broken, the value of the rupee followed the rise in the price of silver and the rate of exchange was put up by successive stages from 16 d to 28 d. as shown in the following table :—

Date of Introduction.			Minimum rate for Immediate T. T.s.	
3rd January, 1917 ...	...	...	1	4¼
28th August, 1917 ...	...	...	1	5
12th April, 1918 ...	...	...	1	6
13th May, 1919 ...	...	...	1	8
12th August, 1919 ...	...	...	1	10
15th September, 1919	...	...	2	0
22nd November, 1919	...	...	2	2
12th December, 1919	...	...	2	4

serve to demonstrate how the exchanges all the world over have been violently disturbed by the War.

Foreign Rates of Exchange on London, December 8th, 1917.

		Rate Dec. 7th 1917.	Rate Nov. 30th 1917.	Rate Dec. 8th 1916.	Usance	Par.
Paris	franc to £ 1	27·22-24	27·25-26	27·79$\frac{3}{4}$-80$\frac{3}{4}$	Cheques	25·22$\frac{1}{2}$
Amsterdam.	florine to £ 1	10·80-85	10·76-80	11·65$\frac{1}{2}$-66$\frac{1}{2}$	,,	12 107
Petrograd.	roubles to £ 10	357–362	365–370	160-163$\frac{1}{2}$	sight	94·57
Italy	lire to £ 1	39·45-75	39·50-70	32·25-35	,,	25·22$\frac{1}{2}$
New York.	dollars to £ 1	4 76$\frac{5}{16}$-$\frac{7}{16}$	4·76$\frac{5}{16}$-$\frac{7}{16}$	4·76$\frac{5}{16}$-$\frac{7}{16}$	Cable	4·86$\frac{2}{3}$
Bombay	ster. to rupee	1s. 5-5$\frac{1}{16}$d.	1s. 5-5$\frac{1}{16}$ d.	1s. 4$\frac{3}{32}$-4$\frac{7}{32}$	T. T.	1s. 4d.

Rates of Exchange on London, May 15th, 1920.

		Rate, May 16th, 1919.	Rate, May 14th, 1920	Usance	Par.
Paris ...	francs to £ 1	29·83-86	58·25-35	T. T.	25·22$\frac{1}{2}$
Amsterdam.	florin to £ 1	11·74-76	10·52-58	T. T.	12·107
Berlin ...	marks to £ 1	...	186–189	T. T.	20·43
Vienna ...	kroners to £ 1	...	815–835	T. T.	24·02
Italy ...	lire to £ 1	38·25·38	78·25-75	T. T.	25·22$\frac{1}{2}$
New York	dollars to £ 1	4·66$\frac{3}{4}$	3·81$\frac{3}{4}$	Cable	4·86$\frac{1}{8}$
Bombay...	ster. to rupee	1s. 8d.$\frac{8}{16}$	2s. 1d. 1$\frac{1}{2}$	T. T.	10 to gold sovereign

A typical Indian course of exchange will be as follows :—

	(March 13, 1918).	(June 12, 1920).
Bank Telegraphic Transfer	1 s. $4\frac{31}{32}$d.	2 s.
Bank Demand Drafts	1 s. $5\frac{31}{32}$d.	2 s. $\frac{1}{2}$ d.
3 months' sight Credits	1 s. $5\frac{13}{32}$d.	2 s. 1d.
Bank Demand on France	192 fr. (for Rs. 100).	480 fr. (for Rs. 100).
3 Months' sight France	$198\frac{1}{2}$,,	556 fr.
30 days' sight Hongkong	213 Rs. (for 100 dollars).	$219\frac{1}{2}$ Rs.
30 ,, ,, Shanghai	303 Rs. (for 100 taels).	....
60 ,, ,, Japan	$144\frac{1}{2}$ Rs. (for 100 yen).	116 Rs.

Bank D. D. on New York, Rs. 297 (for $ 100). $310\frac{1}{2}$ Rs.

160. High Exchange.—The Government of India went on raising the rate of exchange, as we have seen, in response to the rise in the price of silver and thus abandoned, for purposes of foreign exchange, the old ratio between the rupee and the sovereign, while maintaining the legal relation for internal purposes. This latter ratio was only nominal since the sovereign was at a premium and had disappeared from circulation, large quantities of it having gone to the melting pot. This policy was believed to be in consonance with the principle underlying the gold exchange standard and was defended on the ground of the impracticability of the alternative courses. It remained for the Babington Smith Committee merely to decide at what rate exchange should be stabilized, and it recommended 24 d. (gold) as the most suitable rate. The rupee was not linked to sterling as before on account of the depreciation of the later but sooner or latter sterling and gold were expected to attain the old identity of value.

The change from 16 d. to 24 d. as the gold value of the rupee, was necessary, in the opinion of the Committee, to protect the rupee from the melting pot. At the new rate, it will be profitable to use the rupee as bullion rather than as a coin when the price of silver exceeds 63 d. an ounce and

it was believed that as at this price the silver currencies of France and the U. S. A. are likewise threatened, 24 d. (gold) was a safe rate to adopt. But 8 d. was a considerable rise in the exchange and the high rate was calculated to have a detrimental effect upon Indian producers and manufacturers. Though consumers and importers would benefit by the ratio of 1 sovereign : 10 Rs., cultivators and others would lose because they would receive for their commodities Rs. 10 instead of Rs. 15 for each sovereign.

The comparative disadvantage of a high rate of exchange was a subject which had been discussed by the Herschell and the Fowler Committees and they had arrived at the conclusion that a low rate does not confer any permanent benefit upon the country and that the contrary claim had not been borne out by the trade and other statistics. The change recommended by the Babington Smith Committee was rather large and it had to justify the rate of exchange it favoured. The strongest argument it could urge, of course, was that a return to the old rate was impracticable in view of the high price of silver, of the undesirability of tampering with the rupee and of the inconvenience and disturbance caused by too low a drop from the rate already reached. The Committee, however, laid great stress upon the beneficial effect upon prices and upon the population generally, of a high exchange which was, for that reason, welcomed and had been urged by the Government of India.

161. High Prices and Exchange.—Besides the argument that in stabilizing exchange, the least disturbing course to follow is to adopt a rate as near as possible to the prevailing rate, the consideration that appeared decisive to the Committee, was the ameliorating effect a high exchange would produce upon the political unrest which had widely spread throughout the country. With a high exchange, a stated amount of English money in which the value of Indian exports was expressed would be converted into a smaller number of rupees, and therefore, the Indian price in rupees would be lower. The rupee being rated at a higher amount, importers of goods would

pay smaller prices in rupees for foreign commodities, with the same result. A low exchange had, before 1893, prevented Indian prices from falling in conformity with the declining prices of Europe. It was believed that, on a parity of reasoning, a high exchange would prevent Indian prices from rising in unison with the high prices ruling in western markets. The fact that the rise in Indian prices was comparatively small, was attributed to the Government policy of raising sterling exchange. The Government of India very strongly favoured a high exchange on this account and in justification for the relief that would be afforded to the consumers, pointed to the prevailing discontent which had occasionally burst out into violence and crime. The Committee attached very great weight to this plea[1] and also advanced further reasons in support of its recommendation.

Apart from the fact that if the country lost on its exports on account of fewer rupees being obtained by producers and merchants for them, it would gain in imports, the cheapness of which was an important consideration from the point of view of industrial development as well as that of the consumer harassed by high prices. The loss caused by a high exchange would, besides, be more than made good by the unusually high prices which India's exports commanded and would continue to command in the outside markets. Further, an analysis or the population by occupations showed that the numbef of cultivators and others who were likely to benefit by a low exchange, was smaller than that of those who would suffer hardships thereby. It was contended that the effects of a high or low exchange were only transitory and that adjustments between wages and prices established an equilibrium in a short time. Foreign competition with Indian industries was not to be apprehended and a low

1. "We are led therefore to the conclusion that on economic and social grounds it is not desirable to restore a low level of exchange for the rupee under present conditions. Such a level would tend to augment prices generally and to aggravate the dangers of social and economic discontent"—Report, para 50.

cost for wages and raw materials would place India in a position of decided advantage. Moreover, there would be a good deal of saving on the Home Charges; and though the revaluation of sterling securities and gold in the Currency Reserve would result in a loss, it would be wiped out by the saving in a few years and surpluses would accrue to the national exchequer. The above considerations combined to lead the Committee to decide in favour of a high rate of exchange.[1]

The Committee's line of reasoning becomes intelligible when it is remembered that the primary aim it had placed before itself, was the stabilizing of the rupee and it found no difficulty in arraying arguments in favour of the course it recommended, when the aim was to be attained at any cost. It speaks of the saving on the 'home charges' but does not say that it is equivalent to heavy indirect taxation of the people. And it has no hesitation in stating that if the costs of production did not respond to the fall in prices which might take place in the world's markets, the whole question of the Indian currency system should be reconsidered. Lowering of prices by a more or less permanent increase in the gold value of the token rupee, does not appear to us to be a desirable remedy for a Government to adopt and particularly when it means the imposition of indirect taxation and of a heavy loss upon the producing classes.

162. Recommendations Accepted:—The Secretary of State accepted the recommendations of the Currency Committee and immediately put into operation a portion of them. Exchange was accordingly fixed at 24 d. (gold) but the removal of the restrictions on the import of gold and the change in the ratio between the sovereign and the rupee so to make it 1 : 10 for internal purposes were postponed. The effects of this partial execution of the policy suggested by the Committee, were

1. " We are thus led to the conclusion that the material interests of India are not likely to suffer from the fixing of a high rate of exchange for the rupee and that certain important advantages will follow from such a course of action "—Report, para 54.

interesting. Instead of being stabilized the exchange fluctuated violently from week to week. The 24 d. rate is gold meant at times as much as 34 d. in sterling owing to the depreciation of the English pound as reflected in the dollar exchange. Speculators saw in this situation an opportunity to make profits by remitting money to London at the prevailing high rate and bringing it back when it was reduced as it was bound to be in course of time. There was a scramble for remittances and foreign exchange became a veritable gamble.

Having announced its determination to maintain exchange at a fixed rate, Government felt itself bound to support it by all means in its power. The usual method of supporting a weak exchange is, of course, to sell reverse councils. And Government started offering weekly remittances on their balances and reserves in London. The demand was enormous and the market rate of exchange was consequently comparatively low. The rate that Government offered for its reverse councils was higher and speculators fell over the shoulders of one another to secure Government drafts. The demand was mostly speculative in character and Government lost on its sales of sterling drafts, because it was disposing of its London funds at rates much higher than those at which they had been originally remitted. Indian money remitted at 16 d. or 18 d. per rupee, was being brought back through the sale of reverse councils at 30 or 32 d., and the difference constituted a heavy loss to the country.

This policy of Government was strongly criticised. It was pointed out that reverse councils which were justified only when the trade balance was adverse to India, were being sold only to satisfy the profit hunger of speculators in the face of favourable trade conditions and thus an unnecessary loss was being inflicted upon the country. This transaction was even characterized as 'organized loot', and loud protests were made against it by commercial bodies. And it was estimated that in less than six months, about eight crores of rupees were thus wasted by Government. The policy was, however, persisted in despite

public protests and it was only in the third week of June that some modification of it was announced.

163. Reverse Councils :—In defence of its policy, Government maintained that the very fact that there was a large demand for remittances was enough to show that the trade balance was adverse, though actually it might not be so. Many of those who, during war, could not remit their profits abroad and sought sterling drafts for the transference of their accumulated savings, on the restoration of normal conditions, must be accommodated as their demand was legitimate. There was undoubtedly a good deal of speculation involved and Government tried at one time to distinguish it from legitimate dealings and to discourage it. Government's offer of reverse councils amounted to one million £ a week but the aggregate tenders were for £ 100 million: and Government insisted upon the tenderers depositing a proportion of the price of the drafts as a sort of guarantee of good faith. The divergence between the market rate and the rate at which reverse councils were offered, however, continued and Government did not see its way to stop the weekly sales.

The retention of the control over the imports of gold, the acquisition of the imported gold at rates dependent upon the dollar exchange and the continuance of the old ratio for internal circulation, between the sovereign and the rupees, had all to be abandoned at last as the result of the illicit imports of sovereigns which were smuggled accross the borders and the continued wide divergence between the market rates of exchange and the parity of gold. As from 21st June, 1920, the restriction on the imports of gold bullion and foreign coin was removed. It was also declared that until further notice, the sovereign would cease to be legal tender though during a moratorium of three weeks it would be accepted at the rate of Rs. 15 at currency offices and that the currency law would be amended so as to establish the new ratio of Rs. 10 to the sovereign. Restriction on the import of sovereigns was to be removed on the expiry of the moratorium.

The sale of reverse councils was not however, to be stopped but the rates at which they were to be offered were lowered to 1 shilling $11\frac{19}{32}$ d. per rupee for immediates and 1 shilling $11\frac{11}{16}$ for deferreds. The reason given for this change was the fall in the market rates of exchange which not only departed from gold parity but fell below the parity of 24d. which Government would have to maintain, when the parity between gold and sterling was restored. This change in Governments' policy meant its inability to keep up the exchange at the fixed rate of 24d. (gold) which could have been equivalent about 28d. (sterling), at the current rate of exchange between England and U. S. A. Government admittedly gave up the struggle in despair and contended itself only with offering reverse councils at a rate a little higher than the market rate, particularly as it happened to be the rate at which sterling drafts would have to be sold when, with the rupee valued at 24 d., sterling returned to its normal value. This policy did not mend matters; there was still a divergence between the Government rate of exchange and the market rate, amounting to 3 d. per rupee. It was believed that the circumstances in which the Currency Committee had made its recommendations, had entirely changed and that another inquiry had become necessary.

CHAPTER XII.

Banking and Credit.

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164. Indigenous Banking.—Banking means dealing in credit. It consists in the banker and banking firm keeping money for their customers subject to withdrawal on specific conditions, advancing or loaning money on security and purchasing and selling bills of exchange, bonds, stocks, promissory notes etc. Even before the advent of modern joint stock banking, there were, in this country, numerous banking firms and bankers who carried on business on an extensive scale. Money lending was and is done by numerous persons of every caste and class in towns and villages, all over the country. As distinguished from these money lenders, the bankers took money on deposit, made loans and issued drafts or 'hundies,' and they have always occupied a high status in society. In old times governments borrowed largely from the bankers who financed military campaigns. The Peshwas, for instance, were heavily indebted to them and several banking houses enjoyed great social reputation for the extent of their transactions and the honesty of their dealings. English banking, which has now assumed a vast magnitude, also began in this humble way. When the prejudice

against usury disappeared, the people first to take advantage of the favourable situation, were the goldsmiths.[1]

The small bankers took deposits and allowed interest upon them, gave loans on the security of jewellery pledged with them and purchased and sold bullion and ornaments. This business is being done to-day extensively in villages and small towns all over India, where modern banking is unknown. The banking houses of a higher status have dealings on a much larger scale. They finance internal trade and remit funds from one place to another for their customers and discount the hundies of small producers and dealers. They very often combine trade with banking. In spite of the rapid progress joint stock banking has made during the last generation, these indigenous banking houses play a highly important part in the internal finance of the country. They accommodate small traders and producers whom the big banks cannot reach. Their 'hundi' draft is easily available and through it remittance can be most conveniently effected in the absence of other banking facilities.

Mr. Findlay Shirras thus describes[2] the indigenous bankers:—" Before the British era, trade was entirely financed by *banias*, who combined money lending and finance with trade. Throughout the length and breadth of India these *banias* undertook the financing of agricultural operations. They were chiefly Marwaris from Marwar, Chetties from Southern India, and Bhattias and Parsees in Bombay and Gujarat. To-day the money-lender

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1 " As they had valuable property of their own to guard, people were inclined to think that what would be trusted to them was safe. Accordingly the practice of depositing money or bullion with the goldsmiths became a common one, the more so after 1640, when Charles I, then in great straits for money, had seized the bullion of private merchants left for safe keeping in the Tower.........When the goldsmiths thus obtained deposits, they naturally were ready to lend at interest. Cromwell borrowed from them on the security of the taxes and paid them back when the taxes came in ; Charles II continued the plan, paying the goldsmiths 8 per cent. for what they advanced."—Townsend Warner ; Landmarks in English Industrial History.

2. Report of a lecture delivered in Calcutta in 1914.

or money changer was still in a flourishing condition. The larger Indian bankers and shroffs still continued to do a large part of the internal banking business. They were the depositories of much of the money wealth of the villages or districts in which they resided and they were also engaged in exchange operations, as well as trading on their own account. They used hundis or bills which were drawn up in *Mahajani* or a written character peculiar to bankers, and these were usually illegible to any one outside their class. A dishonoured *hundi* was an event of rare occurrence with them. *Hundis*, despite the increase in joint stock banking, were not decreasing but increasing, and the circulation of hundis was the most perfect portion of the purely Indian system. The *bania* class was one to which India was greatly indebted for financing agriculturists, and removing products from the growing to the consuming districts and distributing goods of all kinds all over India. Joint stock banks were not in any way a hindrance to their trade: in fact they relieved them of much trouble and risk."

165. Rise of Modern Banking.—Besides these (1) indigenous banking houses and bankers, there are in India to-day, (2) the three Presidency Banks of Bengal, Bombay and Madras, (3) the Exchange Banks doing business in this country as well as in others, and (4) the Indian joint stock banks. "The European system of banking was introduced into India by the Agency Houses of Calcutta. These were not merely merchants and agents but also bankers who did business with the merchant princes in India, planters and the civil and military services. They possessed a note circulation which was extremely beneficial to them. After the passing of the Act of 1813 which gave greater inducements to Europeans to settle in India, there was a considerable extension of banking in connection with the Agency Houses but the great commercial crisis of 1829-30 put an end to almost all these Houses."[1]

1. Mr. Findlay Shirras : Report of a lecture delivered in Calcutta in 1914.

The foreign trade of the country in the early part of the last century, was comparatively small and internal exchange was facilitated by indigenous bankers. As trade, however, slowly expanded, European merchants and others directly interested in it, felt the necessity of having banking arrangements of the western type in their midst. Like the mercantile community, Government also experienced difficulty in carrying on its financial operations without the assistance of a well-conducted modern bank. Under these circumstances the Bank of Bengal came into being and received its Charter in 1809. Of its capital which was then £ 500,000, the State contributed £ 100,000 and Government took its share in the direction of the affairs of the Bank. Indians came steadily to be associated more and more with the foreign trade of the country and, therefore, with the business of the Presidency Banks.[1]

166. The Presidency Banks.—The relations of the Government of India and the Presidency Banks are regulated by the Presidency Banks Act of 1876 which imposes certain definite restrictions upon their business operations while it concedes to them some material and moral advantages also. Before that date the agreement with the banks compelled the Government to place all the cash balances belonging to them in the hands of the Banks, with the result that there was a serious danger of Government's money not being available when it was urgently required. In a despatch to the Secretary of State, dated

1 "The Presidency Bank of Bengal was opened in 1806 and received its charter of incorporation from the East India Company in 1809. The first Bank of Bombay (it went into liquidation in 1868 and a new one was formed in the same year) was established under a similar charter in 1840, and the Bank of Madras in 1843. The establishment of these Banks in the other Presidencies put an end to the possibility that the Bank of Bengâl might become a Bank for all India. The Presidency Banks had at first, a semi-official character. At the foundation of the Bank of Bengal, the East India Company contributed one fifth (the proportion became smaller subsequently) of the capital and appointed three of the directors. Upto the time of the Mutiny the office of Secretary and Treasurer was held by a covenanted civilian."—J. M. Keynes : Indian Currency and Finance.

30th June, 1874, the Government of India wrote :—"The Bank of Bombay, accustomed to high Government balances, and relying on the maintenance of those balances, had so employed them that they were practically locked up; for had we insisted on withdrawing them more suddenly we should have done so in the face of a warning that we should produce a commercial crisis, and therefore for a time the Government balances at Bombay were useless for the purposes of the Government.........We are of opinion that a Government subject to the contingencies to which the Government of India is exposed, ought not to be without a reserve and that this reserve should be in its own hands." The Government was inclined to dissolve its connection with the Banks, but preferably it proposed "to make a change in the agreements with the banks, so that instead of giving them the right to hold all the Government balances, the stipulation may be confined to engaging to pay them interest when our balances are reduced below certain amounts."

In his reply, the Secretary of State (Lord Salisbury) gave his assent to the proposal of the Government of India about establishing an independent treasury system and leaving with the Presidency Banks certain minimum balances without interest and imposing by law specific restrictions upon their business operations. The Presidency Banks Act of 1876 laid down restrictions as to the qualifications and number of directors, the kind of business that they could and could not transact, the territorial limits of their jurisdiction and so forth. The Banks have tried to get some of these restrictions removed as needless, and wanted liberty to deal in certain securities which were not allowed by the Act, *e. g.*, securities of State aided Railways and of District Boards. They also wanted to be empowered to borrow outside India so that they might have access to the great store of banking capital available in London.

This and other matters connected with the powers and resources of the Presidency Banks, were topics of prolonged discussion among the parties concerned. Strong objec-

tion was taken to these Banks being allowed to pledge securities and take deposits in England and thus raise funds there. The Exchange Banks vehemently opposed the suggestions that the Presidency Banks should be allowed, when the Bank rate in India was 6 per cent. or higher, to borrow in London, that they should be permitted to deal in foreign bills under certain conditions and that they should be allowed to draw sterling drafts on London for the home remittances of their customers subject to a limit of £ 200 in each case. One of the Exchange Banks, the Mercantile Bank of India, wrote to the Secretary of State:—"It would be an anomaly in State banking to find the Presidency Banks of India, which depend for their prestige and resources so largely on their State connection, turning their attention and their resources from the object of their existence—the facilitating the internal trade and requirements of India (a sufficiently wide field one would imagine), to embark in operations of foreign exchange. It would further be a serious matter for the existing Exchange Banks, and very unfair to them if these State Banks, backed by their State support and the large amounts of public funds placed at their disposal by the State free of interest, should be authorised to compete keenly, and with all the power that their privileged position gives them, with those institutions which have hitherto conducted that business to the satisfaction of the mercantile community."

The other Exchange Banks wrote in the same strain and there was a lively debate between them and the Presidency Banks. The latter attempted to show that the apprehensions of the Exchange Banks with regard to unfair competition being set up in exchange transactions against them, were baseless. The proposal of the Presidency Banks was favoured by the Government of India, but the Secretary of State was strongly impressed by the contention of the Exchange Banks that their interests would be injured by the proposed changes and declined to sanction even a moderate concession to the Presidency Banks, viz. 'allowing them to draw sterling bills on London for the purpose of the remittance of their customers subject

to a limit of 200 *l* in any one month on behalf of any one customer.' The discussion was brought to an end on 26th September, 1906, with a telegram from the Secretary of State in reply to one from the Government of India asking permission for the above amendment of the Act, stating: 'Your telegram dated 15th September, Presidency Banks. I regret that I cannot accept your proposal.'

167. Their Business.—We shall presently deal with the question of monetary stringency and a high bank rate prevailing in India during the busy season, which was involved in the above discussion. It is to be noted here that the Presidency Banks are three powerful joint stock banks having special relations with Government and carrying on the ordinary banking business under certain well defined limitations. They lead in financing the internal trade of the country, and the ordinary joint stock banks follow them at a distance. They take deposits and lend on security, and discount, buy and sell bills of exchange and other negotiable securities payable in India or Ceylon. They cannot borrow money outside India, nor can they deal in sterling bills. The conditions on which they may give loans are strictly laid down by law. They perform certain services for Government and receive remuneration for it. Government holds no shares in the Banks and is not represented on the directorates. It, however, keeps certain minimum amounts free of interest with the head offices of the Banks, and if the public deposits fall below the stipulated limit, interest is paid on the amount by which they fall short. Usually Government keeps larger deposits with the Banks than they are expected, though not bound, to do.

In the absence of a State Bank, the three Presidency Banks together perform for the Government the same functions as the Bank of England, for instance, but on a restricted scale. "Where a branch of a Presidency Bank exists, part of the Govenment balance is deposited in it. Similarly a part of the Government balances held at Calcutta, Madras and Bombay, is deposited at the head offices of the three Presidency Banks. The relations

between the Government and the Presidency Banks in respect of the holding of balances are partly regulated by agreements with the three banks which were last revised in 1898. The agreements provide that the Banks are to transact general business for the Government at their head offices and certain branches; that they are to receive certain remuneration; that the Government is not bound to retain at the Banks any particular sum; but that if its balance at the Head Office of any of the three Banks falls on any day below a specified minimum, it is to pay to the Bank interest "at the lowest rate chargeable on such day by the said Bank to the public for loans recoverable on demand." The remuneration of the three Banks and the minimum balances that they are to hold for the Government at their Head Offices without charging interest are as follows:—

	Remuneration per annum.	Amount of Balance below which interest becomes payable.
	£.	£.
Bank of Bengal	2,900	233,300
Bank of Madras	800	120,000
Bank of Bombay	800	133,000

"The revision of these agreements is now under the consideration of the Government of India. In actual practice the Government of India is much more liberal to the Banks than is provided for in the agreements. They usually keep at the head offices of the three Banks the following amounts:—

Bank of Bengal ...	... 467,000 *l.* to 533,000 *l.*
Bank of Madras ...	... A little over 133,000 *l.*
Bank of Bombay ...	... 267,000 *l.* to 333,000 *l.*

"On the floatation of a loan and in special cases, the amounts are increased."[1]

The following table shows the position of the three Presidency Banks on 31st December of each year:—

1 See Chamberlain Commission's Report, Appendices.

Presidency Banks.

	1905 Rs. (lakhs).	1914 Rs. (lakhs).	1916 Rs. (lakhs).	1917 Rs. (lakhs).	1918 Rs. (lakhs).
Capital and Reserve ...	6,23	7,64	7,35	7,42	7,19
Deposits { Public ...	3,11	5,61	5,20	7,71	8,64
Deposits { Private...	22,26	40,4	44,70	67,71	50,97
Cash Balances	8,23	20.84	17,27	33,77	17,07

The comparative position of the three banks on 31st December of the years 1910, 1914, 1916 and 1918, is brought out in the following table:—

		1910 Rs. (lakhs)	1914 Rs. (lakhs)	1916 Rs. (lakhs)	1918 Rs (lakhs)
Paid up Capital	Bank of Bengal	2 00	2,00	2,00	2,00
	" Madras	60	75	75	75
	" Bombay	1,00	1,00	1,00	1,00
Reserve & Rest	Bank of Bengal	1,75	2,00	2,13	1,89
	" Madras	51	79	58	55
	" Bombay	1,05	1,10	90	1,01
Government Deposits	Bank of Bengal	1,98	2,87	2,74	6 85
	" Madras	72	91	1,04	1,02
	" Bombay	1,52	1,83	1,42	1,77
Other Deposits	Bank of Bengal	16,09	21,61	21,44	33,93
	" Madras	5,67	7,62	9,60	9,54
	" Bombay	10,58	10,82	13,67	17,50
Cash	Bank of Bengal	5,14	11,70	7,73	8,94
	" Madras	1,84	2,67	2,87	2,74
	" Bombay	4,36	6,47	6.68	5,42
Investments	Bank of Bengal	3,68	6,21	7,69	7,80
	" Madras	85	1,34	1,63	1,40
	" Bombay	1,49	2,01	3,13	3,54
Dividend for the year	Bank of Bengal	14 p. c.	16 p c.	16 p c.	17 p. c.
	" Madras	12 p. c.	12 p c	12 p. c.	12 p. c.
	" Bombay	14 p. c.	14½ p. c	15 p c.	18½ p. c.

Besides the head offices, the Presidency Banks of Bengal, Bombay and Madras have 25,14 and 23 branches and agencies respectively.

168. Exchange Banks.—Now to turn to the Exchange Banks. These are big European banking concerns with enormous resources, and they carry on their operations in India and over eastern Asia. For the sake of convenience they are classified in two groups according to the extent of business done by them in India, *viz.* (1) five of them are doing a considerable portion of their business in this country and (2) the remaining five are merely agencies of large banking corporations doing business all over the East. The following statistics will give an idea of the position of these banks on 31st December, 1918.

	No. of Banks	Paid up Capital.	Reserve and Rest.	Deposits. Out of India.	Deposits. In India.	Cash Balances. Out of India.	Cash Balances. In India.
		£ 1,000	£ 1,000	£ 1,000	R 1,000	£ 1,000	R 1,00
(1) Banks doing a considerable portion of their business in India	5	4,012	5,159	61,773	50,96,88	14,714	10,34,66
(2) Banks which are merely agencies of large banking corporations doing business all over Asia.	5	18,257	12,020	242,896	10,29,45	40,551	11,94,42
Total ..	10	22,269	17,179	304,669	61,26,33	55,265	22,29,08

These banks are institutions of a very old standing, having been founded sixty years ago, and they take deposits in India and outside, and with funds thus borrowed, finance the foreign trade of the country. They are thus complementary to the Presidency Banks and the other Indian banks which confine themselves to internal trade. They purchase bills of exchange drawn by exporters of produce and discount them with London banks

or realise them when they mature.[1] Through their London offices they purchase import bills which are drawn on consignees in sterling and thus they finance import trade also. These transactions enable the banks to bring back the funds realised in London. As the value of India's exports normally exceeds that of the imports, the deficiency in import bills is made good by the purchase of council bills and telegraphic transfers and the shipment of gold and silver.

Owing to stringency in the money market, in the busy season, the bank rate and the discount rate mount up very high. The exchange also rises and the Exchange Banks bring money into the country by buying the Secretary of State's drafts, and Telegraphic Transfers which enable them to receive rupees from the Government Treasuries immediately without having to wait for more than two weeks for the arrivals of the bills. The difference between the rate of interest they have to pay on their own borrowings or deposits, both in England and India, and the rates they charge in discounting sterling bills constitutes their profit.

The deposits of the Exchange Banks have considerably increased in recent years and while enjoying a monopoly of the finance of the export trade of the country,

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1 "Bills against the export trade are drawn :D. A. (documents on acceptance) and D. P. (documents on payment). They are purchased by the banks' branches in India. The D. P. bills are held by their London offices until they are retired or paid at maturity. The D. A. bills as a general rule are discounted or rediscounted, immediately after acceptance. They are rediscounted with the English Joint Stock Banks and the Scotch Banks or with bill brokers financed by these, and especially in times of stringency with the Bank of England. These bills may be held for a time by the Indian Exchange Banks in London. This would occur when business in India was stagnant or when money was difficult to employ in London. To the extent to which the D. A. are rediscounted immediately after acceptance (which they are in the great majority of cases) the Indian export trade is financed not with the funds of the Exchange Banks, except from the time of the bills in India to their arrival in London, but with the funds of the British Banks, i. e., with British and not Indian capital."—Report on Banks in India, 1917.

they participate actively in the financing of the internal commerce also. The extent to which their resources have increased during the past few years, will be seen from the following figures :—

		Number of Banks.	Capital and reserves.	Deposits in India.	Cash balances in India
			£ (1,000)	£ (1,000)	£ (1,000)
1913	...	12	37,825	20,690	3,902
1914	...	11	36,972	20,098	5,596
1915	...	11	36,793	22,364	5,068
1916[1]	...	10	37,931	25,359	6,760
1917[2]	...	9	32,682	35,584	22,496
1918[3]	...	10	39,448	40,842	14,861

Exchange Banks compete with other banks in the country in borrowing money by means of deposits and in lending and discounting business. Their operaitons are not thus restricted to the financing of import and export trade. They have 48 branches in India as compared with 68 branches (and three head offices) of the Presidency Banks and 93 head offices and 206 branches of the Joint Stock Banks. The Indian deposits of these banks amounted, in 1918, to £ 40,842,000 as against Rs. 59·62 crores of the Presidency Banks and Rs. 37·32 crores of the Indian Joint Stock Banks. As we have shown in the last Chapter, owing to the severe strain put upon the monetary resources of India by the War, the drawings of the Secretary of State had to be curtailed, gold could not be imported and exchange rose much above the standard rate. Exchange

1. Excluding the Delhi and London Bank which was amalgamated with the Alliance Bank of Simla, Ltd.

2. Excluding the Russo-Asiatic Bank, information not being available.

3. Including the Bank of Taiwan which opened a Branch in India.

Banks had not adequate funds to buy bills and had to sell drafts at a fixed rate.

169. Joint Stock Banks.—Banks of the third class *viz.*, the Joint Stock Banks, are almost all of them, of recent origin. The growth of this type of bank has taken place during the last thirteen years. The total number of banking and loan companies registered under the Companies Act in 1914–15, was 574 and their paid up capital amounted only to Rs. 7,98,75,509. The corresponding figures for 1917–18 were 485 and Rs. 10,19,49.000. The number had remained steady for several years and declined in 1914–15 and 1915-16 on account of the failure of many Swadeshi banks; and yet the paid up capital almost doubled in ten years. Under the heading, banking and loan companies, are included hundreds of petty banking and lending establishments, and institutions carrying on operations on a considerable sale, are very few. The number and the amount of paid up capital of these banking companies, are given below:—

Year.	Number.	Paid up capital (Rupees).
1900–01	430	3,82,84,266
1905–06	595	4,40,34,101
1906–07	567	7,31,57,416
1910-11	492	7,91,31,641
1913–14	552	7,91,51,400
1914–15	475	7,98,75,509
1915–16	460	8,34,04,000
1916–17	459	8,68,59,000
1917–18	485	10,19,49,000

The joint stock banks are classified, for the sake of convenience, into four groups according to the amount of

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their capital; and their position on 31st December, 1918, was as follows:—

	No. of Banks.	Paid up Capital.	Reserve and Rest.	Deposits.	Cash Balances
		R (1,000)	R (1,000)	R (1,000)	R (1,000)
(1) Banks with Capital and Reserve amounting to Rs. 20,00,000 and above ...	8	3,56,05	1,35,79	37,73,64	8,72,92
(2) Banks with Capital and Reserve between Rs. 20 and 10 lakhs	5	48,71	21,36	2,30,27	58,54
(3) Banks with Capital and Reserve between Rs 10 and 5 lakhs	6	31,69	8,44	55,57	17.12
Total of Banks above Rs. 5,00,000 . ..	19	4,36,45	1,65,59	40 59,48	9,45,58
(4) Banks with Capital and Reserve between Rs 5,00,000 and Rs 1,00,000	28	48,65	14,43	1,38,35	36,90
Total ...	48	4,85,10	1,80,02	42,14,83	9,85.48

Joint stock banking is a plant of recent growth and has yet to drive its roots wide and deep into the soil though the European banks are of several years' standing. Nor are all the joint stock banks Indian managed. While the sapling of indigenous joint stock banking was growing up vigorously, it was overtaken by a violent storm in 1913, when a number of banks collapsed. The failure of the banks caused ruin and hardship to numerous middle class and poor families, but it imparted a wholesome and much-nee ed lesson as it exposed the rotten condition of many of the apparently prosperous concerns. It indeed dealt a rude shock to public confidence and for a time the progress of banking was retarded. But the exposure was calculated to teach the people where the screw of banking management was loose and to ensure a slow but healthy progress of the movement.

These joint stock banks came up on the crest of the enthusiastic industrial movement which began in 1905, and banking came to be regarded as a new path into which the energies of enterprising persons might strike. The public was willing to patronise the new institutions and put their money in them. The middle class which was in the habit of saving and of depositing its savings in the Postal Savings Banks, was attracted by the tempting prospect of getting a higher rate of interest and dividend, and the new concerns had no difficulty in attracting share-holders and depositors. From 5 to 6 per cent. interest (a high rate in those days) was offered for deposits fixed for a year or two years, and the banks helped many a shop-keeper and trader in his business by giving him accommodation.

170. Bank Failures.—Several causes combined to make the position of the joint stock banks insecure. (1) The directors of many of the concerns were men who knew little about banking business and could not and did not control the operations of the banks. (2) If some of those whose duty it was to keep a strict watch over the dealings of the banks, suffered from a lack of experience, others were too clever to deserve the responsibility entrusted to them. (3) Accounts were not properly kept and loans were given without sufficient security. (4) A large amount of the funds of the banks was locked up in such a way that it could not be easily realised. (5) Some of the managers went in for speculation, a species of business which such banks should have avoided, and the monies taken from depositors at a high rate of interest, were used to finance concerns whose profitableness was doubtful. (6) Dividends were often distributed among shareholders out of capital, and this fact could be concealed by window-

dressing, that is, skilful manipulation of the accounts. When, therefore, one of the banks came into trouble owing to a run being made upon it by depositors, public confidence was shaken and other banks also came down. Their assets could not be easily realised, the demand of depositors could not be met and they had to close their doors.

These facts have been brought out in liquidation and other proceedings in connection with the banks which have taken place in law courts. With a few exceptions most of the banks which have failed or have been liquidated, have been pigmy concerns. The following table shows their number and position :—

Year.	No. of Banks liquidated	Capital.		
		Authorised.	Subscribed.	Paid up.
		Rs. (1,000)	Rs. (1,000)	Rs. (1,000)
1913 (two months)...	12	2,74,00	1,64,56	35,3
1914 ...	43	7,10,50	2,45,61	109,12
1915 ...	11	56,50	7,91	4,60
1916 ...	13	2,30,90	20,90	4,23
1917 ...	9	76,50	35,75	25,26
1918	7	2,09,50	4,86	1,461

Many of these banks had high-sounding names but were ricketty from the very beginning. The paid up capital bore a small ratio to the subscribed and the authorised capital, as may be seen from the following

table of some typical banks, compiled from the information published by the Department of Statistics :—

Name	Authorised Capital.	Sub-scribed Capital.	Paid up Capital	Deposits.
	Rs.	Rs.	Rs.	Rs
Solar Bank, Lahore, Registered, 17th April, 1913, Liquidated, 24th March, 1914	1,00,00,000	1,55,000	8,510	......
Orient Bank of India, Lahore, Registered, 18th May, 1907, Liquidated, 4th September, 1914. ...	25,00,000	10,00,000	71,354	4,94 958
Bank of Asia, Lahore, Registered, 2nd September, 1912, Liquidated 29th November, 1914.	25,00,000	4,65,450	32,099	76,781
Commercial Bank of India, Gazipur, U. P., Registered, 17th January, 1913, Liquidated, 2nd July, 1914	10,00,000	5,775	4,250	18.655
Sri Krishna Bank, Madras; Registered 28th May, 1909, Liquidated, 31st March, 1914.	5,00,000	5,00,000	2,125	......
United Bank of Commerce, Bengal, Registered, 25th September, 1912; Date of going into liquidation, 14th August, 1918	2,00,00,000	2,81,510	27,080	......

Banking corporations and bankers have to keep sufficient cash and liquid assets in their hands so as to be able to meet demands as they arise. But the Swadeshi joint stock banks did not follow this wholesome practice. While the proportion per cent. of the cash to the liabilities on deposits of the Presidency Banks has been 33 and of Exchange Banks 20, on an average, that of the joint stock banks has not exceeded 15 or 16. The position has steadily improved during the past few years. The following table shows the proportion per cent. of cash to liabilities on deposits of the

several classes of banks on 31st December of each year:—

	1910	1913	1914	1915	1916	1917	1918
	p. c.	p. c.	p c.	p. c.	p. c.	p. c.	p. c
I Presidency Banks ...	31	36	46	34	35	45	29
II Exchange Banks— ...							
(1) Banks doing a considerable portion of their business in India	16	19	28	19	25	40	20
(2) Banks which are merely agencies of large banking corporations doing business in Asia.	21	17	26	41	35	160	116
III Indian Joint Stock Banks—							
(*a*) Banks having capital and reserve of 5 lakhs and over.	11	18	21	22	24	25	23
(*b*) Banks having capital and reserve between one lakh and less than 5 lakhs.	...	16	22	22	17	21	24

The lesson of the bank failures seems to have been taken to heart and the joint stock banks now evince a desire to maintain a strong cash position ; and this tendency was especially marked in the abnormal conditions created by the war.[1] Although banks have to provide for an adequate holding of cash against their deposit liabilities,

1 The remarks made by certain shrewd observers in connection with the position of these banks before the failures of 1913-16, have proved almost prophetic. Mr. Keynes wrote :—

" In the case of the smaller Banks, dealing, as they are, with clients to whom banking is a new thing, and in a country where hoarding is still dominant, the cash balances seem, from the available indications, to be hopelessly inadequate ; and it is hard to doubt in the next bad times, they will go down like nine pins. If such a catastrophe occurs, the damage inflicted on India will be far greater than the direct loss falling on the depositors."—Indian Currency and Finance.

it will vary from one class of banks to another and will depend upon the nature of its business and its requirements of safety. What is a safe margin to one type of bank, may be quite an insufficient proportion in the case of another.

171. Proposed Restrictions.—The failure of so many banks led the public and Government to consider whether it would not be desirable to impose certain restrictions upon firms and individuals who used the words 'banks,' 'bankers,' or their equivalents, thereby gaining an amount of prestige in the eyes of people and attracting deposits. The Government of India, therefore, issued a circular in August 1913, asking Provincial Governments to communicate to them the views of the commercial community and others on this point. They suggested restrictions that would be desirable in the following matters :—(1) The prescription of a minimum amount of subscribed capital ; (2) a stipulation that an adequate portion of such capital should be duly paid up within a reasonable period from the starting of the business ; (3) a restriction on the full allocation of profits to dividends pending the building up of an adequate reserve ; (4) a restriction as to taking up by a 'bank' of business outside that of banking in which the banking profits might be lost. Some restrictions of the nature proposed by Government are clearly necessary in the interests of the public as well as of a healthy growth of Indian joint stock banking. But any banking law that may be passed, should be such as will not hamper the growth of legitimate and sound business and as will only protect healthy development from the competition of unscrupulous and unsound concerns.

The economic development of India requires an extension of banking facilities in all parts of the country. The people have to be taught to hand over their savings to banks which will use the funds thus collected, for the promotion of trade and industry. There is a great scope for the expansion of banking, and concerns, small and large, if they are conducted along right lines, will be suc-

cessful and helpful. High rates of interest rule in the market and small business men and producers cannot get the necessary accommodation without paying a heavy price. The ordinary money-lenders in towns and villages give credit to their clients, but charge exhorbitant rates for their services. If banks were to collect cash from persons of small means and inspire confidence in the public mind, they would assist in the economic development of the country.

172. Agricultural Banks.—There are no land banks and agricultural banks in India like those in other countries.[1] Landholders have, therefore, to raise loans by mortgaging their lands to money-lenders, and cultivators obtain advances from the village sowkar for the current expenses of agriculture. *Takavi* loans are made by Government to cultivators, but they are not popular, and they do not satisfy the smallest fraction of the needs of the people. The indebtedness of the Indian rayats is colossal, and attempts made to relieve it, like that of the Deccan Agriculturists' Relief Act, have almost failed. There are here two problems to be tackled, first to enable the farmer to shake off the burden of the old debts and second, to advance to him the capital required to carry on his agricultural operations. If there were banks which would supply this two-fold credit the cultivator's lot would be vastly improved. But he has as yet to rely, where there are no co-operative credit societies,—and these are too few in view of the large population of the country—on the old credit machinery *viz.* the money-lender who charges high rates for his money.

We have shown in Chapter V what is the position of the cultivator and the common artisan with regard to credit and supply of capital. In one of his pamphlets, on Agricultural Banks in India, Mr. D. E. Wacha pleads for the establishment of land banks which will emancipate the cultivators. He gives an account of the experiment of such a bank in Poona district which was to have been made about the year 1883, and argues that, after all, co-

1 See Gide's Political Economy and the next Chapter of this book.

operative credit societies are not calculated to solve the problem of agrarian indebtedness.[1] He holds up the Agricultural Bank of Egypt to imitation in this country and wishes enterprising men to start such banks and conduct them with the assistance of Government. There can be no doubt about the fact that the problem of agricultural indebtedness ought to have been boldly faced by the State long, long ago ; and the cultivator should have been assisted to throw off the yoke of his debt, by means of agricultural banks. In Ireland and in France, for example, the State is placing large funds at the disposal of cultivators. This is not to minimise the urgent importance of the growth of the co-operative credit societies which are calculated to improve the status and economic position of the rayat as nothing else can, but to point out the colossal dimensions of the rayats' indebtedness and to suggest the radical and effective cure necessary to wipe it out.

173. Industrial Banks.—The want of industrial banks is being similarly keenly felt. The Presidency and joint stock banks lend their monies for short periods, and they cannot afford to lock up their funds in ordinary securities or new industrial concerns. Like agriculture, industries require a special treatment, and it has been suggested that banks should be started for financing industrial enterprise. State assistance is also invoked in the matter though how precisely it should be rendered is a difficult point to settle. Government may advance capital on the security of the property of a concern when the loan has been recommended by competent authority; or it may guarantee a certain rate of interest as it did in the case of railway enterprise. Financing of industries would certainly be better done by private banks strongly supported and supervised by the State. And if branches of such central banks were opened in small towns, the producers there would derive material benefit from them, and the banks themselves would do good business.

1 See page 112 above as also the next Chapter.

Organising capacity, expert advice and an adequate supply of capital are the essential requisites of industrial development. No new industries can be started unless they have the backing of men with capital to finance them or of industrial banks which will make it their principal business to support sound propositions. Such industrial banks do not exist in this country and their work cannot be done by the ordinary deposit banks. Neither the Presidency nor the Joint stock-banks can assume this role, as they cannot lock up their funds in industrial concerns for long periods and do not possess the expert agency necessary to judge of the character of the industrial proposals placed before them. Japan has already equipped herself with industrial banks and all other nations have been awakened to the urgent need of such institutions. Messrs. Tata, Sons and Company have taken the lead in starting an Industrial Bank with a capital of Rs. 6 crores and its progress is being watched with the keenest interest.

174. Their Possibilities.—The Indian Industrial Commission devoted its attention to the constitution and functions of industrial banks that were required in this country and considered how far they ought to receive assistance from Government. It examined the position of industrial banks in Germany and Japan to find out if they could provide a lesson for India. With regard to the German industrial banks three characteristics were found to be striking; (1) the high proportion of their paid-up capital to their total cash transactions; (2) the readiness with which they finance industrial and commercial business and participate in fresh industrial ventures, by taking up and eventually selling blocks of shares in such undertakings and (3) the large measure of control they exercise over the businesses financed by them through the appointment of their representatives as directors. It is believed that the banks have the backing of the German Government which is anxious to stimulate industrial enterprise through them.

The Government of Japan likewise supports the industrial banks in that country and imposes on them cer-

tain conditions as to the investment of their capital with a view to ensure their sound and successful working. On this evidence before it, concerning the part played by banks specializing in industrial finance and the support accorded to them by the State in Germany and Japan, the Industrial Commission could not but conclude that the industries in India would materially benefit by a similar system established in this country. The Tata Bank has already commenced financing indigenous industries on the lines suggested above but many such banks are needed for providing adequate finance to new ventures. The business of industrial banks is, of course, full of risks and special precautions have to be taken by them in laying out their funds. The Industrial Commission has indicated these safe-guards and they relate mainly to the judicious use of their capital by the banks.[1]

The Tata Bank was started without Government assistance, and though Government must help industries directly in a variety of ways, it is best that industrial banks should multiply so as to be able to stimulate the development of industries through private agency. The Commission expressed the opinion that "the establishment of industrial banks working on approved lines is of sufficient national importance to justify Government assistance"; but having no sufficient material before it to allow it to formulate a definite scheme for industrial banks, whether of provincial or imperial scope, it suggested the appointment of an expert committee to examine the whole question of additional banking facilities and the form which Government assistance and control should take.

175. The Bank Rate.—The Bank rate is the rate which is charged for loans against Government securities, while the rate of advances on other securities and of discounts is slightly higher. The rates are not the same in the different Provinces. As we have said above, this business is, at present, done by shroffs and other money-lenders who deal in hundies. They grant accommodation for a few months and charge varying rates of interest. The

1 Report, para 291.

shroffs in big commercial centres are a link between petty traders and shop-keepers and the Presidency and joint stock banks, the latter discounting their bills and thus coming indirectly in contact with the small business men.

The official bank or discount rate of the Presidency and other banks is, however, not identical with the rate that prevails in the bazars, and the latter is often not much affected when the bank rate rises owing to monetary stringency which occurs periodically. "The shroffs who finance nearly the whole of the internal trade of India, rarely, if ever, discount European paper and never purchase foreign or sterling bills. Neither do they lend money on Government Paper or similar securities, but confine their advances to the discount of *hoondees,* to loans to cultivators and against gold and silver bullion. The *hoondees* they purchase are, for the most part, those of traders, small and large, at rates of discount ranging from 9 to 25 per cent. per annum but the *hoondees* they buy from and sell to each other, which are chiefly the traders' *hoondees* bearing the shroffs' own endorsement, rule the rates in the native bazar and are generally negotiated, during the busy season, at from 5 to 8 per cent. discount. They also discount their endorsements pretty largely with the Presidency Banks when rates are low and discontinue doing so when they rise above 6 per cent. They also speculate largely at times in Government Paper, especially during the off-season, but rarely or ever hold it or lend on it."[1]

The bank rates are usually regulated by the intensity of demand for money required for financing the export of Indian staples to foreign countries and the supply of raw materials to large indigenous industries. The money supplied by the shroffs usually goes to finance the local movements of the staple crops from the fields to the markets. Funds may be taken from the banks to return the advances made to dealers by shroffs and in that way the two money markets come into contact with each other. When money is tight, the Presidency Banks will attract deposits for

1 Appendices to the Report of the Fowler Committee, page 70.

short periods by offering higher rates of interest and put up their lending rate at the same time. The rates are naturally high in the busy season and low when trade is slack. Thus the half-year ending 30th June witnesses higher rates than the other six months when there are no crops to be moved. The following table gives the maximum and minimum rates during the years, 1913-1918 :—

	1913. (Pre-war year).		1914		1916		1918.	
	Maximum.	Minimum.	Maximum	Minimum.	Maximum	Minimum	Maximum.	Minimum
	p. c.	p. c.	p. c.	p. c.	p. c.	p. c.	p. c.	p. c.
Bank of Bengal ...	8	3	7	3	8	5	[illegible]	[illegible]
Bank of Bombay ..	7	3	6	3	8	–	6	[illegible]
Bank of Madras ...	7	5	5	4	8	6	7	5

176. The Hundi Rate.—The relation between the Bank Rate and the Hundi Rate has been a subject of some curiosity. The nature of the dealings of the shroffs who discount hundies with the Presidency Banks has been shown above. The big shroffs go to the banks when they have laid out all their funds in purchasing the hundies of smaller shroffs who may have financed the village bania or dealer. There are two kinds of hundies, the 'hand bills' or pure finance bills, and the trade bills. As regards the hundi rate, it "rises and falls with the bank rate proper, though somewhat in advance of it, and naturally so, for one is a discount rate and the other a rate for day-to-day loans. Thus at the beginning of the busy season, the hundi rate would usually be higher than the bank rate; the reverse being the case when the slack season is about to begin, so that the hundi rate may be said to be a sort of long distance signal."[1]

1 Appendices to the Report of the Indian Currency Committee, 1919.

The hundi business of the Presidency Banks often represents as much as one-third of their total advances. The following tables show, as an illustation, in the case of the Bank of Bombay, these proportions and the variations in the Bank and the Hundi rates :—

I

Bank of Bombay (In lakhs of Rupees).

Date		Bills Discounted	Advances	Total
1909	30th June ...	153·97	559·46	723·43
	31st December ...	266·54	513·93	780·47
1913	30th June ...	216·29	580·84	797·13
	31st December ...	154·29	551·20	710·49
1915	30th June ...	98·26	613·75	712·01
	31st December ...	113·05	599·77	712·82
1918	30th June ..	82·23	887·46	976·68
	31th December ...	29·69	1193·09	1222·78

II

In lakhs of Rupees

1913	Bank Rate	Hundi Rate	Bills Discounted
4th April	7	7	238·70
21st May ...	—	7½	262·27
4th June	6	5	247·71
15th June	5	4	207·00
14th July	4	3½	22[illegible]·04
24th July	3	4	232·57
8th August	4	5	241·15
16th September ...	5	6	215·96
7th October	—	7	242·19
31st October	5	6	226·00

177. Reserve Treasury System.—While on this question of the bank rate in India, we may refer to the prolonged controversy which has raged round the reserve treasury system of Government and the artificial stringency which is alleged to be created by it. Apart from the Paper Currency and Gold Standard Reserves which have nothing to do with the current revenue and outgoings of Government, the funds of the State are held in the treasuries and subtreasuries[1] scattered over the country, at the head offices and branches of the Presidency Banks, in the Reserve Treasuries and in the 'Home Treasury' which keeps its balances with the Bank of England. By experience it has been found that the official year should open normally with a balance of Rs. 18 crores in India and £ 4 million in England. Under agreements with the Presidency Banks, Government is bound to keep certain amounts of its balances free of interest at their head offices, and in practice, it leaves with them larger balances than these fixed amounts. What amount each treasury should hold, has been fixed by experience and the surplus balances are kept in the three 'Reserve Treasuries' in Calcutta, Bombay and Madras, to be drawn upon when required. The following table shows how the Indian balances have been distributed:—

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1 " In the United Provinces there are 49 treasuries, 40 in Burma, 30 in Bombay, 29 in the Punjab, 27 in Bengal, 25 in Madras, 22 in the Central Provinces, 20 in Behar and Orissa, 13 in Assam, and 13 mainly in Indian States, *i. e.* political. These 'political' treasuries do not have the usual flunctuations that are due to different seasons of revenue collections. Of the total number of treasuries 46 per cent. are medium, 38 per cent. small and 16 per cent. large."—G. Findlay Shirras : Indian Finance and Banking, page 311.

In lakhs of Rupees

Last day in March	Treasuries	Head offices of Presidency Banks	Branches of Presidency Banks	Reserve Treasuries	Total
Pre-war average					
1910-14	9,42	2,08	2,81	7,60	21,91
1915 .. .	10,17	2,62	3,33	6,05	22,17
1917	8,26	5,95	4,17	4,56	22,94
1918	7,57	9,55	3,40	2,47	22,99
1919 .. .	7,25	11,81	3,33	3,58	25,97
Five war years' average .	8,35	6,42	3,60	4,05	22,42

It was contended that by locking up crores of rupees in its treasuries the Government caused, in the busy season, a scarcity of money, and a regular system under which loans might be made to the Presidency Banks during the time of monetary stringency, has been suggested. Government has granted such assistance from time to time, but it was naturally reluctant to develop it into a regular system which it would be bound to follow. The creation of special Reserve Treasuries was forced upon Government by the inability of the Bank of Bombay to meet its demand for money deposited with the Bank under an agreement of 1866 and for guarding against such dangerous contingencies in the future, Government decided to keep with the Presidency Banks only certain fixed amounts and to hold the surplus in the Reserve Treasuries established at Catcutta in 1876 and at Bombay and Madras three years later.

This system which locked up and withheld from the market large sums of money, causing the bank rate to mount up, has been a long-standing grievance of the banks and financiers in India. And the public feeling of discontent was accentuated by the fact that during the five years 1908-13, Government balances soared

unusually high, and the Secretary of State having withdrawn[1] a large portion of them, lent them to approved borrowers or deposited them with banks in London. So far as the question of a high bank rate in India and the reserve treasury system of Government is concerned, we do not think that having at their disposal crores of public deposits kept with them by Government, the Presidency Banks could reasonably complain against the reserve treasury system which was intended to provide a financial safeguard, though we do not understand why Indian funds should be transferred to and lent in England and should not be placed at the disposal of trade in this country.

178. Government's Policy.—In two Notes which he wrote as far back as 1888 and 1899. on this subject, Sir James Westland put up a strong defence in favour of the existing system. He pointed out that there was no analogy in that connection between the position in England and that in India. In England, the diminution of the balance in the Bank of England by the whole amount it holds at the credit of the Exchequer, would be a small tax upon the whole banking balance of the place; and secondly, "the nexus between the Bank of England and the general available cash of the country is infinitely closer than that which exists in the case of the Presidency Banks."[2]

Now that banking is progressing rapidly in this country, the Presidency and other banks must stand on their own legs and not look up to Government for assistance every time. The fluctuations in the bank rate between the busy and the dull season are, no doubt, great,

1 The balances for the years 1908—1913, were as follows :—

	In London Mill £.	In India Mill £.	Aggregate Mill £.
31st March, 1908 ...	4·60	12·85	17·45
" 1909	7·98	10·23	18·21
" 1910	12·79	12·29	35·07
" 1911	16·69	13·56	30·26
" 1912	18·30	12·27	30·66
" 1913	8·78	19·29	28·07

2 See Appendix II to Chamberlain Commission's Report.

but Government have to conserve their resources in view of demands likely to be made upon their balances, and can not be expected to place them at the disposal of banks. It is true that on account of the prevalence of the reserve treasury system, the reserves of the country are placed in two water-tight compartments and cannot be fully utlized to the serious inconvenience of trade. The real solution of the problem, however, lies in the establishment of a State Bank which will stand to the Government of India in the same relation as the Bank of England does to the British Government. The Government of India have held the view they laid down in a letter written to the Secretary of State in 1900, viz.:—" Regarding the general danger involved in the financing of trade by the Government we have before us the words of Lord Salisbury's Despatch of 6th May 1875, that 'capital supplied by Government, and not representing the savings of the community, is a resource on whose permanence no reliance can be placed, and which therefore tends to lead the trade into dangerous commitments.' The warning conveyed in those words still holds good. The Presidency Banks have excellent reserves, it may readily be admitted. But those reserves could not, in the peculiar circumstances of India, be suddenly converted into cash, and it seems, therefore, undesirable that the account of one depositor, and that one, a Government exposed, as the Government of India is, in a most unusual degree, to sudden calls and emergencies, should occupy a position of such dangerous importance."[1]

In taking a review of his financial stewardship, Sir William Meyer observed in the Viceregal Council that one of the problems he had wished to tackle, had reference to the periodical money stringency which is a characteristic of the busy trade months of the year in India. As the policy of Government of locking up funds in its treasuries had been subjected to strong adverse criticism, the Secretary of State's assent was obtained to a modification thereof and it was decided to make loans to the Presidency

1 Appendix I to the Chamberlain Commission's Report.

Banks in times of stringency. Sir William had to face a difficult situation of financial strain caused by the war and he found it beneficial to deal liberally with the Presidency Banks by keeping with them larger balances, leaving on deposit, till actually required, the proceeds of public loans and avoiding the lock up of funds in the reserve treasuries.[1]

The change of policy necessitated by the exigencies of the war, particularly the necessity to keep larger balances with the Presidency Banks for facilitating public investment in the loans floated by Government, is reflected in the following table[2], which shows the percentage share of the treasuries and the Banks in the balances.—

Percentage Share of Government Balances.

	No. on March 31, 1919.	Pre-war average, 1910-14.	War average, 1915-19	March 31, 1919
District treasuries ...	272	43	37	28
Presidency Banks—				
Head offices ...	3	·9	29	45
Branches ...	42	13	16	13
Reserve Treasuries...	3	35	18	14
Total ...	320	100	100	100

But this does not solve the problem of periodical monetary stringency and of the lock up of funds in reserve treasuries, because in view of emergencies Government

1 Speech made in presenting the Financial Statement for 1918-19.

2 G. Findlay Shirras. Indian Finance and Banking, page 310.

feels it desirable to maintain its own reserve and cannot rely upon the Presidency and other banks. We may expect the State Bank, when it comes into being, and the system of treasury bills tried during the war, to render the reserve treasuries superfluous and wasteful

179. Savings Banks.—Post Office Savings Banks have always provided people of the middle class with the convenience of a secure means of depositing their small savings, and they have been availed of by all those who did not care to speculate and run after higher rates of interest and dividend at the risk to the safety of their money. "In 1833 with the failure of the commercial houses of Calcutta, a Government Savings Bank was formed to afford to Europeans and Indians alike a means of investing their savings apart from the uncertain influences of commerce. Until 1882-83 the business of the Government Savings Bank was conducted by the Presidency Banks in Calcutta, Bombay and Madras and by Government treasuries elsewhere. The Post Office took over the management of them from that date and in the first year of the existence of a Savings Bank under the control of the Post Office, a great change was manifest and Government had actually to take measures to prevent a too rapid increase in deposits. In 1911 the deposits, inclusive of interest, amounted to 17 crores, of which 15½ crores belonged to Indians."[1]

The deposits in the Post Office Savings Banks form the unfunded debt of the Government of India and are used by it for capital expenditure. Government is a big banker and it borrows and lends money. Its general

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1 Findlay Shirras. "Government Savings banks were established in the Presidency towns between 1833 and 1835. That in Calcutta was founded in 1833 after the bank failures of 1832. In 1870 district savings banks were instituted in connection with selected district treasuries. The Post office Savings Banks, opened in all parts of India in 1882 and 1883, absorbed the district savings banks' business in 1886 and that of the Presidency Savings Banks in 1896"—Indian Finance and Banking, page 386.

balances are the source from which depositors are paid when they want to withdraw their money, and on the outbreak of the War there were heavy withdrawals which were all met from the balances. In 1914, Government offered certain additional facilities to depositors by raising the limit of the amount of their annual and total deposits as well as by helping their investment in Government securities. These facilities drew large deposits from the public, their total amount reaching 23 crores of rupees in 1914.

The following are some important figures in connection with Post Office Savings Banks:—

Year.	No. of Depositors.	Deposits (inclusive of interest)	With-drawals.	Balance of Deposits (inclusive of interest).
	No. (1,000)	Rs. (1,000)	Rs. (1,000)	Rs. (1,000)
1900-01	816	3,90,65	3,50,97	10,04,33
1905-06	1,116	5,50,06	4,91,50	19,99,26
1907-08	1,262	5,94,83	5,53,39	15,18,14
1909-10	1,379	6,00,21	5,36,90	15,86,72
1911-12	1,501	8,78,70	6,80,72	18,89,85
1913-14	1,639	11,60,37	9,04,76	23,16,75
1914-15	1,644	9,60,62	17,88,11	14,89,29
1915-16	1,660	8.16,32	7,73,46	15,32,12
1916-17	1,647	9,38,20	8,10,79	16,56,93
1917-18	1,638	10,16,69	10,17,76	16,58,46
1918-19	1,677	13,45,15	11,21,17	18,82,44

The normal growth of the deposits in the Post Office Savings Banks was arrested by the set-back received by

them on the outbreak of the War. The check was, however, only temporary, and if the amount of the deposits has not returned to the pre-war level, the cause is to be sought in the withdrawals by people for investment in war loans and the more attractive rates of interest offered by Government securities. The failure of joint stock banks in 1913, diverted the flow of money from them to the Postal Banks as Swadeshi banks had formerly attracted the savings of the middle class to themselves by their more attractive rates of interest. These tendencies will be found clearly reflected in the figures given in the table above.

The Presidency and joint stock banks have savings departments attached to them, and here there is an unlimited field which must be properly exploited. Small savings of the people must be collected to finance trade and industries and thus to promote the economic development of the country. Co-operative societies are now tapping this source, as we shall show in the next Chapter; and the general policy which Government has followed since the outbreak of the War in the matter of finance, will go a long way in teaching the people the habit of saving and lending. A special Post Office branch is tacked on to the public loans and contributions are received through the Post Office. The first attempt yielded about half a crore; and the cash certificates offered in the War Loan as also the opportunity given to contribute to other securities through the Post Office, was a step in the right direction.[1]

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1 " We have further opened up new borrowing sources, and I refer here specially to the postal section of the last three loans and to the cash certificates. The former method of utilising the Post Office to get into touch with the small investor was introduced for the first time in 1915-16 when it gave us £ ⅓ million; while in 1916-17 it yielded a little less. But this year the postal section of the War Loan produced nearly £ 3 million, a larger sum than we raised by ordinary methods in any year between 1907–08 and 1913-14; while the cash certificates will have given us in this first year of their issue about £ 6½ million (gross), a result exceeding those of any of our public loans before the present year."—Speech of Sir William Meyer in introducing the Financial Statement for 1918-19.

180. State Bank.—The question of starting in India, a central or a State Bank on the lines of the Bank of France or the Reichsbank, has been under discussion for several years. In India, the note issue is a monopoly of the State while in other countries it is a right conferred upon one central Bank, or upon a few banks on certain conditions. The Government, therefore, has to perform here many functions which ordinarily fall within the province of a bank. The State has its reserve treasuries and ordinary treasuries, supplies the currency required for the movement of crops at different times and in different provinces, keeps its gold standard and currency reserves, meets Council bills and sells sterling drafts, borrows here and in England, and lends to approved borrowers, municipal and local bodies and cultivators, out of its surplus balances. The relation of all these transactions and the ordinary transactions of the money market, must be very intimate, and it is maintained through the agency of the Presidency Banks. But it is felt that in the interests of trade and of the general public, it would be much better if Government transferred these functions to an independent bank, of course, carrying on its business, more or less, under State supervision and control.

A scheme for the amalgamation of the three Presidency Banks into such a Central Bank, was formulated so far ago as in the year 1867, but nothing further was done and the question formed the subject of discussion again in 1899 and 1900. Both the Secretary of State and the Government of India were favourably inclined to the idea, but it was temporarily abandoned as it was thought that the time was not propitious, and 'provincial and personal jealousies' were also a cause of the abandonment of the scheme. It was revived thirteen years later and came up for consideration before the Chamberlain Commission. But the Commission declined to express any definite views on it and to make any recommendations about it in the absence of sufficient material and an opportunity for adequate discussion. Mr. J. M. Keynes, one of its members, however, drew up an exhaustive Note

dealing with the proposed Central Bank and attempted to show how such a Bank was not only desirable but also perfectly feasible. He has given an outline of the constitution and functions of an Indian State Bank and discussed arguments in favour of and against it.

Expert opinion on the question has been divided. Some do not think that the one bank, however large it may be, will be able to satisfy the needs of such a continent as India, and they would like the three Presidency Banks to continue. They feel that what is wanted is only a suitable adjustment of the existing machinery to the growing requirements of the country. They apprehend a danger in this 'placing all the eggs in one basket' and are not sure that the position of Government will be improved with a central bank rather than without one. What is wanted, they urge, is not a concentration of banking but more Indian banks conducted by Indians.[1] There is some force in this view, but we do not disfavour the idea of a Central Bank provided the interests of the public are properly safeguarded and the economic development of the country is promoted thereby.

In fact, the need of a large central State Bank is being more keenly felt every day. With the expansion of the paper currency and of the foreign and internal trade of the country, the importance of properly organizing India's financial strength has become very great. The Gold Standard and Paper Currency Reserves have grown enormously and have been invested in London. The time has, therefore, come when a large State Bank must be started in India either by the amalgamation of the Presidency Banks or independently of them. The State Bank will in no way retard the development of the ordinary banks; on the contrary, the position of such banks will be more secure with a central bank to support them. There is enough capital in India to finance such a bank; and through its branches it will keep in touch with the trade of the different provinces. It will likewise

1 See Webb's "Advance India."

take up exchange business and many of the difficulties which Government experiences in this connection, under existing conditions, will disappear.

181. The Amalgamation of Presidency Banks — Almost all the projects formulated for a State Bank in India, have taken the amalgamation of the Presidency Banks as the basis of their constitution, and the scheme suggested by Prof. Keynes also was founded upon the same idea. The extent of the transactions of the Presidency Banks, the experience they have accumulated and the business relations they have established, rendered it impossible to keep them out of a scheme of a central bank for India and to establish a large national banking institution over their heads. And in fact, it was the difficulty of their coming to an agreement among themselves, with regard to amalgamation, that had stood in the way of the formation of a central bank. The Bank of England and the Bank of France are ordinary joint stock concerns, standing in special relation to the Governments of those countries, and the Presidency Banks combined into a new central bank, could occupy the same position with respect to the Government of India.

One objection raised against the amalgamation of the Presidency Banks into a 'Central Bank' as distinguished form a 'State Bank', was that, being mainly under European control, the proposed Bank, though benefiting by larger amounts of public money placed at its disposal, was not calculated to serve the interests of Indian merchants. The example of the Bank of Madras was cited to show how not a single Indian had been able to get on the board of directors of the Bank though its dealings with Indians have been large. Latterly an Indian has been put upon the Board of the Madras Bank and the long-standing Indian complaint has been met. Public opinion is naturally distrustful in matters where Indian interests are likely to be sacrificed and this distrust is not without foundation. The Industrial Commission found it necessary to refer to the difficulty experienced by Indian industrialists in securing accommodation from the Presidency Banks; and it is not a groundless fear that under the management of the

central board and the provincial boards of the Central Bank, on which Indian interests would not be properly represented, the latter are not likely to be adequately looked after and promoted.

Then again, the amalgamated Bank is to leave the field of foreign exchange business to the Exchange Banks though it will take up the remittance business on behalf of the Secretary of State and will have access to the London market. The powerful Exchange Banks have always resisted the encroachment of the Presidency Banks on their preserve and their monopoly is going to be preserved. The note issue will, for the present, not be transferred to the central bank which will, however, secure the reserve treasury and other balances of Government The scheme has, therefore, been criticised as a half-hearted measure, not calculated to subserve public interests as a State Bank is expected to do.

182. The Scheme.—The boards of directors of the three Presidency Banks submitted the scheme of amalgamation and the constitution of an Imperial Bank to their shareholders and obtained their sanction to the scheme early in 1920 in view of the necessary legislation that was proposed to be undertaken at the March session of the Supreme Council. But the introduction of the measure had to be postponed on account of the demand of members for time for the consideration of the important issues raised by it. The Presidency Banks pressed upon their shareholders the urgency of amalgamation on the ground that post-war economic developments rendered it imperatively necessary. The directors maintained that "failure to take advantage of the present opportunity to meet the undoubted public desire by amalgamating the three Presidency Banks in an Imperial Bank of India might result in Government being forced to establish a State Bank on purely official lines and to withdraw their connection with the three Presidency Banks." They also emphasised the danger of foreign banks obtaining a voice in the monetary affairs in India to the detriment of both Indian and British interests if the Presidency Banks did

not rise to the height of their opportunity and allowed the Indian field to be occupied by them.

Excepting the management of note issue, and therefore, of the Currency Reserve, of the Gold Standard Reserve and of the coinage of rupees, the Central Bank was to transact all the banking functions of Government who would place all state balances at its disposal. It was not to compete with the regular Exchange Banks, but would nevertheless have facilities for rediscounting bills of exchange relative to Indian trade drawn in rupees or in sterling. The Bank's London Office would prove of material help to its constituents in the matter of remittance and investments in London as well as the promotion of their commercial and other interests there. The Public Debt work would remain in the hands of the Bank and would be decentralised instead of its being centralized at Calcutta under existing arrangements.

A central board, having under it local boards at the three Presidency towns, would be the governing body of the Imperial Bank and would consist of a general manager or two general managers, the Controller of Currency and the President and Vice-President of each local board and the secretaries and treasurers of the local boards, the latter having no voting power. The functions of the Central Board would be to deal with matters of general policy and it would have general power of control over the local boards. It would also determine the distribution of funds and the fixation of the Bank Rate and would be responsible for the publication of the Bank's weekly statements. The local boards would retain their existing constitution and would deal with the ordinary day to day business in their respective territories and new local boards may be formed at other centres in the near future. The Bank would undertake to start one hundred new branches in the course of five years from its establishment so as to develop Indian banking and to afford the public opportunities for investment.

183. Outline of the Scheme.—The outline of the proposed scheme of amalgamation was as follows :—The

total authorised capital with the reserve fund of the Imperial Bank of India will be Rs. 15,00,00,000, of which the authorised share capital will consist of 225,000 shares of Rs. 500 each representing Rs. 11,26,00,000 and the reserve fund Rs. 3,75,00,000. At the present time the fully paid up shares of the three Presidency banks are as follows :—

		Rs.
Bank of Bengal, 40,000 shares of Rs. 500 each	...	2,00,00,000
Bank of Bombay, 20,000 shares of Rs. 500 each	...	1,00,00,000
Bank of Madras, 15,000 shares of Rs. 500 each	...	75,00,000
Total	...	3,75,00,000

It is proposed that the paid up capital of the Imperial Bank shall be Rs. 5,62,50,000 and that the reserve fund shall be increased to Rs. 3,75,00,000.

To effect this :—

		Rs.
The Bank of Bengal has to contribute share capital	...	3,00,00,000
Reserve	...	2,00,00,000
Total	...	5,00,00,000
The Bank of Bombay has to contribute share capital	...	1,50,00,000
Reserve	...	1,00,00,000
Total	...	2,50,00,000
The Bank of Madras has to contribute share capital	...	1,12,50,000
Reserve	...	75,00,000
Total	...	1,87,50,000
Grand Total	...	9,37,50,000

For this purpose 150,000 new shares of the nominal value of Rs. 500 each will be issued by the Imperial Bank of India on which the sum of Rs. 125 will be payable. Out of this total issue, 80,000 shares will be alloted at par to

the registered shareholders of the Bank of Bengal, 40,000 shares will be alloted at par to the registered shareholders of the Bank of Bombay, and 30,000 shares to the registered shareholders of the Bank of Madras at the price of Rs. 225 per share. The result of this will be that each shareholder in the Bank of Bengal will exchange his present holding of shares for an equivalent number of fully paid shares in the Imperial Bank and, in addition, will receive two new shares at par of the Imperial Bank for every share so exchanged, on which latter new shares Rs. 125 will be immediately called up and payable; shareholders of the Bank of Bombay will make a similar exchange and receive a like allotment and the share holders in the Bank of Madras will also exchange on the same terms and receive a like proportion of shares of Rs. 125 called up at the price of Rs. 225 per share. All future calls on the partly paid shares of the Imperial Bank will be payable at par.

184. India's Banking Needs:—After the description we have given so far of the condition of banking in India, it is not necessary to repeat that the need of expansion in this connection is urgent. With respect to banking facilities and the amounts handled by banks, there is no comparison between the position of India and that of western countries. That there is a growing tendency among the people towards banking their savings, and depositing them with the indigenous bankers or with joint stock and other banks, cannot be doubted. But the use of cheques is restricted to large commercial centres and is rare outside Presidency towns and cities. The total aggregate deposits of British banks, exclusiva of the Bank of England, at the end of 1915 were £ 1,271,000,000, and including the Bank of England, £ 1,433,000,000. At the end of 1914, the corresponding amounts were £ 1,167,000,000 and £ 1,322,000,000, while at the end of 1913, the deposits and current accounts of the joint stock and private banks were £ 1,070,000,000 and if the deposits of the Bank of England are included, £ 1,420,000,000. Several English banks have, each of them, deposits twice or thrice as large as the total deposits of all the Indian banks put together! The increase during the last two years in the current and deposit accounts has

been phenomenal, as may be seen from the following table. The deposits of the Bank of England amounting to about £ 200 million in 1919-20, are not included.

Current and Deposit Accounts.

	1918–19.	P. C of Liabilities.	1919–20.	P. C. of Liabilities.	Increase.	
	Mill £		Mill. £		Mill. £	%
English						
Joint Stock.	1583·4	90 9	1874 1	87 9	+290 7	18·3
Private ...	51·2	91·6	56 2	2·09	+4·9	9 7
Scotland	232·0	81·1	259·6	81·2	+37·5	16·9
Ireland ...	131·6	74·9	166·2	79 2	+34·6	26 4
Total ..	1988·3	88·5	2356·2	86·2	+367·9	18·5

While the deposit per head of the population in England is about Rs. 500, the corresponding amount in India can not be put at a higher figure than Rs. 5. The following tables will be found instructive:—

Population of areas served by the Presidency Banks and the per capita deposit in each Bank.

Name of Bank	Areas served by the Bank (Head office and branches).	Total population of the area at last census.	Total private deposits in the Bank in 1918.	Deposit per head of population.
		(1,000)	Rs. (1,000)	Rs.
Bank of Bengal	Bengal. Burma, Assam, Bihar and Orissa, Central Provinces, United Provinces, Punjab, Delhi, North-West Frontier Provinces, and the Hyderabad State.	206,288	23,92,99	1·16
Bank of Bombay	Bombay Presidency including Sind, Berar, Indore, and Baluchistan.	33,136	17,49,85	5·15
Bank of Madras	Madras Presidency and Mysore.	52,023	9,34,91	1·83

1 The figures refer to census of 1911 and include the population of Native States situated within provincial boundaries

Deposits in Banks in India.

Year.	Presidency Banks and Branches.	Exchange Banks (Deposits in India only)	Indian Joint-Stock Banks.	Total.
	Rs. (1,000)	Rs. (1,000)	Rs. (1,000)	Rs. (1,000)
Thirty years ago (1888)	9,77,12	4,16,60	1.14,86	15.08,58
Twenty years ago (1898)	15,92,10	10,15,31	5,38,19	31,45,60
Ten years ago (1906) ...	30,52,93	18,08,73	11,55.49	60,17,15
1907	31,47,04	19,17,01	14.00,29	64,64,34
1908	31,87,32	19,51,52	16.26,09	67.64,93
1909	35,84,79	20,27,42	20,49,10	76.61,31
1910	36,58,01	24,79,17	25.65.85	87.03,03
1911	38,58,29	28,16,90	25,29,11	92,04,30
1912	40,11,48	29,53,62	27,25,98	96,91,08
1913	42,37,16	31,03,54	24.10.34	97,51.04
1914	45,65,60	30,14,76	18,37,12	94,17,48
1915	43,49,96	33,54,56	18,78 64	95.83,06
1916	49,91,45	38,03,88	25,72,28	1,13,67,51
1917	75,43,02	53,37,53	32.16,21	1,60,96,76
1918	59,62,03	61,26,33	42,14,83	1,63.03,19

CHAPTER XIII.

The Co-operative Movement.

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185. Principle of Co-operation.—Competition, specialization and concentration are three chief features which characterise the modern organisation of industry. They have led to production of wealth upon a vast scale, to increased efficiency, to reduction in cost of production and to the cheapening of products. The advantages of the new system are undeniable. But it has brought in its train a number of evils and it is not an unmixed good. Thus competition leads to deterioration in quality and entails hardship upon the weak and the backward; specialisation tends to turn the human being into a wealth-producing machine; and concentration creates a powerful class of capitalists and employers. The disadvantages of the factory system are patent and an effort is being made to remove and minimise them in various ways. One of the ways of achieving this end is co-operation.

There is co-operation of a sort in all departments of life and even in modern industrial organization; and it is also not incompatible with competition. Employers and

workmen co-operate, and no wealth can be produced without the co-operation of the agents of production. Man and the family were self sufficient in undeveloped communities. Inter-dependence and co-operation among men and nations is the cause and the effect of progress. But co-operation technically means quite a different thing and we are here concerned with that meaning. It signifies a combination of people having the same interests for the attainment of their common ends and it is the negation of conflict and of competition under which men strive to take advantage of the weakness and helplessness of one another.[1]

The principal object of co-operation, therefore, is to eliminate the middleman, the employer, and the capitalist. Workmen and consumers form themselves into groups and create a power by means of combination which, as individuals, they do not possess. The profits which are taken away by the middleman, the capitalist and the employer, can then be divided among the members of the groups ; and they rejoice in a sense of independence. Some enthusiasts have unbounded faith in the principle of co-operation which, they think, will characterise and ought to characterise the economic organization of the future as it will remove many of the evils associated with the existing regime. They see in co-operation an economic and even a moral force of great potentiality which will prove the salvation of modern society.

1 "Co-operation in its technical sense, however, means the abandonment of competition in distribution and in production. In distributive co-operation, the customers who are members of the co-operative societies select one of themselves as manager of the store and share any resulting profit. As they are expected to make no purchase elsewhere, there is no competition. Such co-operative stores are found principally in Great Britain. They have never flourished in America because they have been unable to supply the commodities as cheaply as the great departmental stores. In productive co-operation the object is to eliminate the capitalist and to remove competition between the workmen. The labourers elect one or more of their number to control the enterprise, and divide among themselves the gains."—Seligman: Principles of Economics.

186. Advantages of Co-operation.—Take co-operation for purchase and sale as an example. The agriculturist or craftsman who wants to buy seed and manure or raw material, is at the mercy of the money-lender who is seller and capitalist rolled into one. The agriculturist or craftsman has no choice in the matter of quality and price and has to submit meekly to the terms of the money-lender. If a number of agriculturists or craftsmen, however, combine for the purpose of purchase, they can buy on better terms, as regards quality and price. Similarly in the matter of sale. Societies formed for this purpose, can wait till they obtain better prices for the goods to be sold, and the producers need not offer their produce for what it will fetch. When the cultivator is in need of money he is content with any price the merchant, who is often his creditor, will give him, but a co-operative society will make advances to its members and will try to secure for them the best prices obtainable.

An individual who wants capital for the ordinary conduct of his business, has not much credit, and the money-lender, therefore, charges him a high rate of interest. He has no security to give and the common bank cannot deal with small men like him. A society of such individuals, however, may command, on the joint security of its members, better credit in the market and by organization and self-help, they may capitalise their honesty. When the element of risk is eliminated from the amount charged for loans, the rate of interest naturally goes lower and the debtors benefit to the extent of the margin.

A desire to eliminate the middlemen and to be self-reliant, teaches thrift and men learn to lay by and create capital. In co-operation the moral gain is as great as the material, and it elevates the masses by making them respect themselves. The advantages claimed for co-operation may appear to be exaggerated, but where the principle has been properly imbibed, the benefit is real and lasting. We are told that as an effect of co-operation, "the idle man becomes industrious, the spendthrift thrifty, the drunkard reforms his ways and becomes sober, the

haunter of taverns forsakes the inn, the illiterate, though a grandfather, learns to read and write. It sounds like a tale from wonderland, yet it is all sober fact." [1]

The Maclagan Committee on co-operation sums up its nature and benefits in the following words :—" The theory of co-operation is briefly that an isolated and powerless individual can, by association with others and by moral development and mutual support, obtain in his own degree the material advantages available to wealthy or powerful persons, and thereby develop himself to the fullest extent of his natural abilities. By the union of forces material advancement is secured, and by united action, self-reliance is fostered, and it is from the interaction of these influences that it is hoped to attain the effective realization of the higher and more prosperous standard of life which has been characterized as " better business, better farming and better living'." [2]

The progress made by the co-operative movement in India during the short space of a few years, has been characterized as 'phenomenal.' Co-operation in India is mainly directed towards the supply of cheap credit. The number of societies formed for the purpose of sale, purchase or production, is comparatively very small. The movement is going forward by leaps and bounds and the number of societies in the whole of India had, by 1918, increased to 26,485, the number of members to 10,55,244, and the working capital to Rs. 14,40,01,000 Compared with Germany and Italy, these figures are certainly low, but the movement in India is only a few years old, and the progress made in the first stage of its development, has been unequalled in any other country.

187. The Problem in India.—The co-operative movement in India owes its inception to the failure of the attempts made by Government for more than a generation to cope with the serious problem of the deep-seated poverty and growing indebtedness of the cultivators who constituted the bulk of the population. (1) With the estab-

1 Henry W. Wolff: People's Banks.

2 Maclagan Committee's Report, page 2.

lishment of peace and orderly government under British rule, the population of the country steadily increased. (2) The new form of revenue, judicial and police administration, as also the economic evolution which went on slowly but surely in the country, disorganized the old social and industrial system (3) The new laws and the systematic execution of the decrees of courts altered the relations between debtors and creditors to the disadvantage of the former and strengthened the position of the latter.[1] (4) The rigidity of the system of land revenue collection and the facility with which lands could be mortgaged to sowkars, drove the rayat deeper and deeper into the mire of indebtedness. (5) The growing dependence of the people on agriculture as the means of subsistence, which arose out of the decay of indigenous industries, intensified this evil. (6) The exhaustion of the soil went on apace, and no capital could be put into it if the land remained in the hands of the rayat, and farming could not be efficient if it passed into the hands of the money-lender. (7) Periodical droughts and famines caused enormous losses and grave misery to the cultivators and rendered them more resourceless and dependent. (8) The ignorance and the conservatism of the mass of the population combined with a lack of thrift and saving habits and facilities, made the situation worse. (9) And a kind of material and moral depression seemed to brood over the mass of population; and to diagnose and find remedies for the disease became the most urgent problem that confronted the people and the State.

This is the impression which is left on one's mind by a perusal of the reports of committees and commissions which have investigated the problem of Indian famines, the rayat's indebtedness and poverty and the nature and effects of the system of land revenue prevalent in the country. For thirty-five years before the passing of the Co-operative Societies Act of 1904, Government considered

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1 "The pressure on the means of subsistence is rendered more severe by the moral disorganization produced by laws affecting property and debt, not adapted to the condition of the people."—James Caird.

the problem from time to time, and tried a number of palliatives, all of which have been pronounced as failures. It granted *takavi* advances to cultivators, passed Agricultural Loans and Land Improvement Acts, moderated the rigour of the law in favour of the agricultural debtor, and sought to restrict the power of the latter of alienating his land. But these remedies did not go to the root of the disease and consequently there was no improvement. Recurrent famine and scarcity focussed attention upon the evil and rules were made for mitigating the rigour of the collection of land revenue. At last co-operation came to be regarded as the sovereign remedy, and in 1904 an Act was passed launching the movement into existence.

188. Failure of Early Efforts.—A system of advances to agriculturists from the treasury of the State had been in vogue from the commencement of British rule in India and the various regulations connected therewith were consolidated by Act 26 of 1871 amended by Act 21 of 1876. The object of this Act was to define the purposes for which it was held to be legitimate to place a charge on the land, as security for the repayment of advances made by the State, to enable improvements to be carried out, and to give the Government a preferable claim on the land for such repayment."[1]

After eleven years' experience, it was universally admitted that the Act was a failure. The defects in the Act which were responsible for the failure, were sought to be remedied by Act 19 of 1883, the Land Improvement Loans Act, and an endeavour was also made to encourage the application of private capital to land. This act was followed next year by the Agriculturists' Loans Act (12 of 1884). "Under the former Act, money is advanced for specific purposes of land improvement, and under the latter, for seed, cattle, and other miscellaneous agricultural purposes. But the objects of the two Acts are closely connected, for it will often be the case that in order to make efficient use of his improvement the cultivator will

1 Famine Commission's Report, 1880.

find it necessary to provide himself with cattle and manure, well-gearing and the like, if not with seed."[1]

It is not necessary to refer in this place to the views expressed by the Deccan Riots Commission in 1876 or to the Deccan Agriculturists Relief Act passed in 1879 which created a special machinery for inquiring into and adjusting disputes between money-lenders and cultivators and empowered courts to go behind the contract between the two, to cut down interest to reasonable proportions and to allow the debtor to pay off the debt by easy instalments. Experience of nearly 40 years of the operations of the Act is utterly disappointing and there is a wide-spread impression that it must go. While the debtor is seeking to take full advantage of the provisions of the Act, the creditor is too shrewd a person to lend under conditions which will inflict a loss upon him. It is believed that the Act has had a demoralising effect upon creditors and debtors alike and a Committee of inquiry appointed by the Government of Bombay, has suggested certain important modifications of the Act.

What could not be achieved by the kind of measures described above, it was believed, could be accomplished by the establishment of agricultural banks, and the subject was much discussed in the eighties of the last century. The position is well summed up in a despatch on the subject sent by the Government of India to the Secretary of State, dated 31st May, 1884, thus :—"The utility of similar institutions in Europe, America and Australia is well known to your Lordship, and we understand that in the British Colonies especially the progress of agriculture and the various enterprises connected therewith, have been much advanced by the monetary assistance thus afforded to the cultivating and land-owning classes. There are indications that India, no less than the countries to which we have referred, suffers from want of loanable capital. The rate of interest is extremely high even where the security is of the best description, the agriculturist when in need of money for the most prudent purposes,

1 Report of the Indian Irrigation Commission.

has to pay so dearly for a loan that it absorbs the profit of his business. The Deccan Ryots Relief Act, the Jhansi Encumbered Estates Act, and other similar measures of an exceptional character have tended to relieve the peasantry in some localities of a hopeless load of debt; but they have not enabled the thrifty and industrious cultivator to obtain money for agricultural purposes on easier terms or more equitable conditions. We have endeavoured to meet this need in respect of loans for land improvement but this is not sufficient. The cultivator requires money from time to time for other purposes, and it has been found that if he can only borrow for one particular object from the Government, he prefers to deal entirely with the money-lender who will lend for all purposes. What is wanted, therefore, is a private bank which will in a measure take the place of the village usurer, but which will at the same time be bound by the articles of its constitution to restrict its dealings to the more solvent cultivators and to supply capital at comparatively easy rates and on equitable conditions."

A number of public spirited men in Poona and Bombay and also Gujarat, were prepared to make an experiment in this direction, and the Purandar Taluka of the Poona District was selected for the purpose. A correspondence ensued on the question of the details of the scheme between the Poona Committee, the Government of Bombay, the Government of India and the Secretary of State. The late Sir William Wedderburn took a very keen interest in the matter, and on 19th October 1883, read a paper on the question at a meeting of the Manchester Chamber of Commerce. Good fortune seemed to smile on the scheme and the authorities in India, Provincial and Supreme, were propitious. But in his Despatch of 23rd October, 1884, the Secretary of State raised a number of difficulties, making out the bank scheme to be an unsound and impracticable project. Here the discussion practically ended and nothing further was done in the matter.

189. Beginning of Co-operation.—The Famine Commission of 1901 reviewed the efforts which had been

made in the direction of granting loans and relief to the agriculturists and suggested that the only effective remedy lay in the establishment of agricultural or village banks of the Raiffeisen type which would carry on their operations strictly on the co-operative principle. A similar conclusion had been already reached by Sir Frederick Nicholson of the Indian Civil Service in his comprehensive and instructive report submitted to the Government of Madras in 1895. "In this report he described the system of co-operation in force in European countries and examined their applicability to Indian conditions. While it was under consideration, a volume entitled 'People's Banks for Northern India,' was published by Mr. Dupernex I. C. S., and a few small experimental societies were instituted by Mr. Dupernex and other offcers in different parts of India. So long, however, as the transactions of these societies were governed by the complicated provisions of the Companies' Act it was impossible to expect much progress, and a Committee was, therefore, appointed by Lord Curzon in 1901, under the presidency of Sir Edward Law, to report on the action necessary for the establishment of co-operative societies on a proper footing. The Committee had the benefit of the advice of Mr. Henry Wolff, the leading authority in England on the subject, and as a result of its recommendations a Bill was introduced in the Legislative Council by Sir Denzil Ibbetson and was subsequently passed as Act X of 1904."[1]

As co-operative credit in India was mainly intended to assist the agriculturists, it is natural that co-operative credit societies in this country should mostly be of the Raiffeisen type. The chief features of the Raiffeisen banks are '(1) limitation of area, so as to secure mutual personal knowledge on the part of members; (2) low shares; (3) permanent indivisible reserve fund; (4) unlimited liability of members; (5) loans only for productive or provident purposes; (6) loans only to members; (7) credit for relatively long periods with facilities for repayment by instalments; (8) the determination every

1 Government of India's Resolution on Co-operation in India, 1914.

year by the members of each society of the maximum credit that may be held by individual members at any time as well as of the maximum total of saving deposits receivable and of loans that may be taken up by the society; (9) absence of profit-seeking, dividends if paid being usually limited, as a maximum, to the rate of interest paid by borrowers for loans; (10) office-holders, with the exception of the Secretary, not paid for their services; (11) promotion of the moral as well as the material advancement of members and, in particular, the purchase of agricultural requisites for sale to members and often the procuring of agricultural machines and implements for letting on hire to members.'

These features of the village bank are calculated not only to supply the cultivator with cheap credit but to teach him to combine with his fellows for common interests, to practise thrift, to make productive use of his resources and to build up his economic prosperity on the foundation of self-help.[1] Credit societies, started and conducted on the principle of another German philanthropist and zealous organizer, Schulze-Delitzsch, are intended for the benefit of urban people—unlike the Raiffeisen banks which serve the rural population—artisans, small traders and professional classes. The founder of these societies also believed in thrift, self-help and solidarity but as he dealt with the urban population, his banks assumed a more businesslike and less altruistic form. Schulze-Delitzsch banks raise funds by shares as well as by deposits, and the liability, as in the case of the other kind of bank, is not unlimited. A considerable part of profits is distributed

1 "It is not merely cheap and facile credit that is required; it is a credit which must indeed be cheap and facile in that it shall ever be at hand but it must be credit which shall only be so obtainable that the act and effort of obtaining it shall educate, discipline and guide the borrower; it should be granted to those who have learned to think, to plan, to save; the method of providing it must teach the lessons of self and mutual help, and suggest the extension of those lessons to matters outside of mere credit; it must be safe not merely in eliminating the dangers of usury, but in being controlled, heedful and productive."—Sir F. Nicholson's Report.

as dividend on the paid up portions of the shares. Loans are granted for short periods and all services are paid.[1]

The area covered by the operations of these banks is larger and the banks have generally an air of commercial and profit-seeking enterprises. Dependence on personal security, formation of character, rendering of mutual help, exercise of vigilant supervision of the use of loans, promotion of moral restraints, of public spirit and of a feeling of solidarity, are of the very essence of the co-operative movement and these are the characteristic features of the rural banks. The two types of popular banks appeal to two different sets of people, living in different environments and having different habits and needs. Hence the difference between the constitution and working of the two kinds of banks.

190. Co-operative Societies Act.—When the co-operative movement was launched with the Act of 1904, it was regarded as an experiment, and Government was anxious to steer clear of two extremes viz (1) undue interference and control and patronage on the one side and (2) *laissez faire* on the other. A Government officer, called the Registrar, was appointed for each Province to dry-nurse the infant movement and to be its guide, friend and philosopher as it steadily grew. Certain concessions were given to the societies by the State, and their profits and operations were exempted from the income tax, stamp duties and registration fees. The societies were likewise to be assisted with State funds in the initial stages of their development on certain conditions.

The progress of the movement was encouraging, and it was found that the Act of 1904 was inadequate to meet the growing requirements of the development: (1) That Act applied to societies for the purpose of co-operative credit only, and not to co-operative societies of other kinds, such as those established for production or distribution, and (2) to unions of societies in larger bodies so as to

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1 See A Manual of Co-operative Societies in the Bombay Presidency by Mr. R. B. Ewbank.

secure a large measure of non-official inspection and control and to facilitate the raising of funds. (3) The Act classified societies according as they were 'urban' or 'rural' and the principle was laid down that as a general rule societies should be with unlimited liability. This distinction was found to be artificial and inconvenient, and it was proposed to recognize the distinction between societies with limited and those with unlimited liability while retaining the principle that agricultural societies must, as a general rule, be with unlimited liability. (4) The Act did not contemplate that societies with unlimited liability should distribute profits. While not encouraging this practice of distributing profits, the amending bill of 1911 proposed to legalise it. A new Act, the Co-operative Societies Act, was passed in 1912 (No. II of 1912) embodying changes found necessary by seven years' experience, as indicated above.

Two years later, Government came to feel that the time had come to inquire if the co-operative movement was proceeding along lines economically and financially sound. A committee was, therefore, appointed with Sir E. D. Maclagan as President, and it was instructed to direct its enquiry to "an examination of such matters as the constitution and working of Central and Provincial Banks, the financial connection between the various parts of the co-operative organization, the audit, inspection and management of all classes of societies, the utilization of the reserve and the manner in which reserve funds should be exhibited in the annual accounts." From the report of the Committee one gets a clear idea of the position of the co-operative movement in India, the nature of its organization, its strong and weak points and the directions in which reform is needed.

Co-operative organization has for its foundation primary societies, agricultural and non-agricultural, credit and non-credit. A number of these societies may be grouped into guaranteeing unions as an intermediary between the primary bodies and the central bank. If all societies in a district are closely associated with the central bank, there will be a large apex bank at the head of each Province, to balance the excesses and deficiencies in central banks and to supply them with the necessary funds. All the different limbs of this co-operative organism must be strong and healthy and capable of performing efficiently the duties entrusted to them if the movement is to make satisfactory progress. A clear idea of the existing organization of co-operation in India may be obtained from the summary of the report of the Maclagan Committee we give in a later part of this Chapter.

191. Progress Achieved.—The success which the co-operative movement has achieved so far, must be regarded as quite satisfactory. And the following statistics will be found instructive:—

I. Co-operative Societies in India.

	1906-07	1909-10	1912-13	1915-16	1917-18
Central (including Provincial Banks and Unions) ..	14	32	251	605	874
Agricultural (including Cattle Insurance and Re-insurance Societies)	740	3,145	11,382	18,051	24,141
Non-agricultural ...	89	321	691	1,019	1,450
Total ...	843	3,498	12,324	19,675	26,465

II. No. of Members.

Central (including Provincial Banks and Unions)	2,774	37,40	29,780	53,078	1,01,491
Agricultural(including Re-insurance Societies)	54,469	1,65,'60	4,67,378	7,17,163	8,51,407
Non-agricultural ...	33,601	61,398	76,378	1,48,195	2,03,837
Total ...	90,844	2,30,698	5,73,536	9 18,436	10,55,244

III. Working Capital

	Rs.	Rs.	Rs	Rs	Rs
Share capital paid up	5,50,805	23,08,342	86,19,795	1,77,69,879	2,45,18,000
Loans and deposits at end of year from Members ..	5 76 02	25,33,317	93,54,645	67,37,579	89,41,000
Loans and deposits at end of year from individual non-Members .	6,56,092	34,82,691	1,33,62,788	3,35 33,561	4,44,80,000
Loans and deposits from Societies	2,40,425	30,16,106	1,93,61,345	25,19,925	44,86,000
Loans and deposits from Provincial & Central Banks.	...	...	...	3,31,27,874	4,77,37,000
Loans and deposits from Government	2,84,738	7 21,775	11,27,547	15,98,705	23,27,000
Reserve Fund ...	58,598	3,36,451	16,08,143	78,79,626	1,14,81,000
Total ...	23,71,683	1,23,97,682	5,34,34,261	10,32,67,149	14,40,01,000

It will be seen from the above statistics that the amount of the working capital of the societies is increasing only a little faster than the number of members and the average is about Rs. 139 per member. The average number of members is less than 40 per society and this is attributed to the increasing proportion of small agricultural

societies. The average capital per society is only Rs. 5,472. The bulk of the societies are credit institutions and the number of those dealing with production, sale and purchase &c., is extremely small.

But it may be asked, to what extent has the problem of the indebtedness of the rayats, which the co-operative movement was started to tackle, been solved? When this test is applied, it will have to be admitted that only the fringe of that problem has yet been barely touched. The economic advantage co-operation confers upon the cultivator or the craftsman is patent; and the benefit of cheap credit to agriculture has been acknowledged. During 1918-19, the number of agricultural societies in Bombay rose from 1,390 in the previous year, to 1,737, an increase of 25 per cent. The number of members increased from 1,01,333 to 1,23,825 while the total working capital rose from 71·9 to 83·6 lakhs. The average number of members and amount of working capital is larger in Bombay than in the Punjab and Madras. But what is a working capital of one crore of rupees, for instance, of the societies in the Bombay Presidency, to its population and its needs? It appears that for the solution of the agrarian problem reliance ought not to be placed on co-operation alone. It is not a panacea for all economic and other evils and it has its limitations. In Germany where co-operation has proved such a signal success, besides rural and people's banks, there are several important agencies through which landowners, both large and small, obtain long-term mortgage credit[1] The resources and operations of these Land Mortgage Credit Associations, the Mortgage Credit Banks, the Joint Stock Mortgage Banks, the Savings Banks, the Land Improvement Fund and Annuity Banks and so forth, are on a colossal scale.[2]

In India very little has been done in this direction and if the co-operative movement were to grow four times as large as it is at present, even then, not much impres-

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1 See J. R. Cahill's Report on Agricultural Credit and Agricultural Co-operation in Germany.

2 See Principles of Rural Credits by James B. Morman.

sion will have been produced on the situation. Inquiries made into the economic condition of the rural population in different parts of the country, shows that cultivators and craftsmen are everywhere sunk in the mire of indebtedness and the problem of uplifting them is very urgent. We believe in co-operation and in its educative, elevating value. But even those who appreciate the importance of the movement and are working to help on its progress, feel that more comprehensive and varied efforts must be made to raise the mass of the people to a higher economic and moral status. The Government must directly encourage the establishment of mortgage, land and agricultural banks and must, for this purpose, place funds at the disposal of such banking enterprise. Crores of India's Reserves which are lent in England, may be made available in this country. In France, Ireland, Japan and other countries, such State help is given to agriculturists and that example must be followed in India.

Government officials and honorary Indian workers are pushing forward the cause of co-operation with commendable zeal and their endeavours are being crowned with encouraging success. But the ignorance of the rayats is the greatest stumbling block in their way, and in spite of everything that is said about the educational and moral value of co-operation, the true spirit of co-operation is seldom conspicuous among members of co-operative societies. "We regret to have to say," observes the Maclagan Committee, "that the conclusion has been forced upon us that in the majority of cases primary societies in India fall short of the co-operative ideal. Speaking generally, even allowing for the backwardness of the population, there has been found a lack of true co-operation."

192. Prospects.—Co-operation is a democratic principle. It is the gospel of self-reliance. But the illiteracy of the Indian masses does not allow them to imbibe and profit by that principle. Members of societies feel that the loans granted to them come from Government and they are profuse in expressions of thankfulness to the Registrar, its representative. They are also inclined, in

many cases, to run the societies on commercial lines. Central banks and non-credit societies tend to become profit-seeking, capitalistic concerns, and it is doubtful how far the principle of guaranteeing and other unions can be understood by the ordinary cultivator. The work of starting, guiding and conducting these institutions has, therefore, to be done by a few public-spirited, enthusiastic educated people; and a few leading men and very often, busy-bodies are found bossing the whole show.

A wider diffusion of education among the masses, a more sympathetic land revenue and general adminisstration, an earnest endeavour to stimulate public spirit and an active and comprehensive attempt to promote the economic development of the country on the part of the State and of social reform on the part of the people, are needed to make the progress of the co-operative movement rapid and healthy. Taken by itself, the movement has given good results, and even within its peculiar limitations, imposed by the existing conditions, it is capable of rendering valuable service. It is not only in the supply of cheap and facile credit that co-operation will benefit the cultivator and the craftsman; it will and ought to help them in the organization of purchase of seed, manure, implements and raw materials and of the sale of agricultural products and manufactured goods.

If local and communal industries, are thus organized in different localities, the resultant good will be immense. The principle of co-operation can be applied, as it is being applied in a few cases even to-day, in a variety of ways to put larger profits into the pockets of the producers. Certain areas are eminently suited to particular crops and industries. Without disturbing the old order of things, they can be brought within the pale of the co-operative movement. The cotton, sugarcane, potato, groundnut and other crops can be dealt with in this way as also the weaving, leather-making, paper-making and oil-pressing industries. The problem of the supply of pure milk to cities and towns is becoming more and more urgent every day and dairies can be conducted on the co-operative

principle. It is satisfactory to notice that endeavours are being made in this direction and it hardly admits of doubt that if they succeed, the resultant good will be appreciable.

193. Some Noteworthy Points.—The progress of co-operation in India is looked at from different points of view by critics; and different lines of development are recommended. It is stated that while in other countries the co-operative movement has been fostered by private effort, in India it has been initiated and is being spoon-fed by the Government. The patronage of the State, however beneficial in the early stages of its growth, will not, it is contended, make for genuine co-operation. The stimulus must come from the people and they must run the movement independently of Government. The State may assist societies, but it must stand out of the movement; otherwise the true spirit of co-operation will die out. On the other hand, many people feel that the co-operative movement will wither away if it is not patronised by Government. The public feels confidence in it because the belief prevails that the Government is at the back of it.

The Registrar, who represents the State, possesses influence with the district and other authorities and can get many things done which co-operative societies, left to themselves, would find it extremely difficult to do. That officer can communicate direct with different administrative departments and has easy access to higher quarters. A co-operative society of cultivators would be handicapped in a variety of ways and would not be able to exercise influence if Government through the Registrar were not behind it. That officer is to members of societies, an authority to whom complaints may be made and appeals preferred. We entirely approve the view expressed by the Government of India with regard to the attitude of officials towards the co-operative movement and think that they should not interfere in it and should not be indifferent towards it either. They should be sympathetic and helpful without being meddlesome.[1]

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1. Government of India's Resolution on Co-operation, 1914.

There can be no doubt about fact that it is due largely to Government's initiation and support that the co-operative movement in India has made the progress it has achieved. Popular and public-spirited bodies like the Central Co-operative Institute in Bombay and the Co-operative Federation in the C. P., are doing yeoman service by organizing and promoting the movement on independent lines. Enthusiastic co-operators like Sir Daniel Hamilton, however, want Government to do more active work in helping the extension and the finance of the movement. He says that 'to attempt to pass on to honorary organizers the development of India's credit and banking is nonsense fraught with danger. India's economic proplems are too many and too deep ever to the solved by 'charity' As well try to run the civil service with honorary workers as to organize India's credit with honorary bankers.' Mr. Henry Wolff, on the other hand wants Raiffeisens to rise in India and to inspire the people with co-operative zeal. He wants volunteers in large numbers to come forward and take up the work of the spread and organization of co-operation.[1]

194. A Dilemma.–Here we are confronted with a dilemma. If Government patronises and meddles with the movement, we are told that the growth will not be vigorous; and if it is left to itself, it will not thrive at all. Government audit and inspection will be needed till co-operative unions and banks can take the work upon themselves and can inspire confidence in the minds of the people. The co-operative organization must be a complete and self-sufficient organism. But it will be many years before that ideal is reached. In the mean time, unions and district and central banks are being started and a kind of solidarity is being created by means of conferences. Men are also being trained to take up the duties of officials of societies because without such training, the working of rural societies is found to be very difficult. It is refreshing to find people scattered in different parts of the country, who are infected with the genuine spirit of co-operation; but that spirit

1. Co-operation in India, Chapter on the Future.

must be widely diffused. It is a sign of the times that co-operation has begun to figure on the platform of political and social conferences that meet from year to year and the champions of the elevation of the masses must make it an important plank in their programme.

When co-operation has barely succeeded in touching even the fringe of the problem of rural credit and agricultural indebtedness, it is too much to expect that it should have spread to non-agricultural industries, to distribution and to consumption. This is a fruitful field and the need of co-operative stores and of societies of consumers in towns is great. But even here the difficulty is to make people appreciate the importance of the movement and to take to co-operation for their benefit. Like joint stock companies, co-operative stores are a novelty to the mass of people and hence the paucity of such institutions. The work of popular education in this connection is, therefore, most urgent and societies which are now being started for housing and other purposes, here and there, are calculated to encourage those who are interested in the progress of the movement.

As things stood, Government thought it necessary to inquire how far the present lines of development were correct and whether any safeguards must be provided in order to ensure healthy progress. If societies go on multiplying without sufficient provision for supervision and inspection, and if they are not inspired with the true co-operative spirit, the movement may be overtaken with a disaster any day. Co-operative banks have also to steer clear of the dangers which threaten ordinary banks, and efficient management and strict audit and supervision must be insisted on. Better that the growth of co-operation should be slow but steady rather than that weak and inefficient societies should be bolstered up or allowed to exist. The fate of the movement in India must depend upon the enthusiasm and the desire of the people to help and improve themselves by combined effort. Education, in the large sense of the word, alone can do it.

195. Land Banks Controversy.—There has recently been some discussion of the question whether the agrarian problem can really be solved by the spread of the co-operative movement and whether land banks of the Egyptian type are not necessary to free the rayat from the load of indebtedness under which he is crushed. It is contended on one side that the hopeless condition of the rayat requires a radical cure and co-operative credit is only a palliative.[1] It is pointed out on the other side that the history of Agricultural Banks does not show either that they can wipe out agricultural indebtedness or make co-operative credit institutions superfluous. 'Non-co-operative agricultural banks may to a certain extent supplement, but they can never supplant co-operative credit institutions.'[2]

A little consideration will show that there is an amount of truth in both these positions. The serious problem in India at which the Government has been tinkering for more than fifty years, is the appalling indebtedness of the rayat. Co-operative credit societies, which came to be regarded as the sovereign remedy, can not frankly solve that problem. They will only supply short term and personal credit and cannot touch the real evil of the existing and long-standing indebtedness. Unless that millstone is removed from the neck of the helpless cultivators and they are enabled to carry on their operations freely and profitably, their condition must remain unsatisfactory.

Since 1870, Government has tried several measures to make loans to agriculturists on the security of their lands. These attempts should have been persisted in and should have been developed into large banking organizations. The Government considers itself to be the universal landlord in India; and as Sir John Strachey observed in 1870, in this capacity duties devolved on it "for the improvement of the land and for the advancement generally of agriculture, beyond the ordinary duties of a Government,

1 D. E. Wacha: Agricultural Banks in India.

2 See "Wealth of India" for October, 1916, page 515.

and similar in kind to those duties which a good land-lord had everywhere to perform."

If the funds of the State had been liberally expended for the improvement of land and of the agricultural industry generally, the situation would have steadily grown better. The peculiar political and economic conditions in India required such a policy on the part of the State. As it was, the general economic decay and stagnation told on agriculture also, and the position was not adjusted to the rapidly changing circumstances. The system of granting long-term loans to cultivators to be recovered in small instalments, was stronglv recommended by the Irrigation Commission of 1903, and their principle was generally accepted by the Government of India in its Resolution on the question, dated 30th November, 1905. But the amount of the loans thus granted has always been meagre, rarely exceeding 6 crores of Rs. for the whole country.

Though this is all true, the importance of co-operative credit societies cannot be gainsaid They supply a badly felt want of the cultivator by providing him with credit where he has none. Agricultural operations are thereby facilitated and higher profits are insured. Credit societies very largely perform the same function as agricultural banks, and they are eminently useful to cultivators who have only small pieces of land to mortgage. They enable them to capitalise their honesty and, on the principle of self-help and mutual aid, to improve their condition. This is an aspect of the agrarian and the general economic question which should not be lost sight of by those who belittle the importance of co-operative credit societies.

In India the State has got to undertake several duties which do not fall within the province of Governments in other countries. But in spite of this, if the co-operative movement grows along sound lines, it must raise the cultivating classes both materially and morally. The progress achieved by the people under the influence of that movement, will be more lasting and beneficial though much slower. The conditions in India with respect to indebtedness are in several respects similar to those pre-

valent two generations ago in the continental countries of Europe where the co-operative movement has now taken firm root. And if co-operation has helped to elevate the masses there, there is no reason why similar results should not take place in India provided other conditions are favourable.

Reviewing the development of rural credits in European countries, Mr. James B. Morman observes :—"If European experience covering more than half a century of co-operative personal credit and more than a century of co-operative mortgage credit, has any lessons for American farmers, the most important are :—

(1) That organization among farmers, has been the basis of success in the credit system ;

(2) That education in the use of credit has proceeded hand in hand with organization ; and

(3) That personal supervision by the farmers themselves over their organizations and over the use of loans made only for productive purposes has been a prominent feature in the European system.

In no instance has any Government taken the initiative in establishing a rural credit system. When legislation by any national Government has taken place, it has usually been for the purpose of facilitating or aiding the organization of farmers' co-operative societies, and when Government aid has been granted, it has generally taken the form of loans at low rates of interest made to local credit societies through central or regional credit banks, for a Government to take the initiative in establishing, for example, a long time mortgage credit system, would seem to European farmers like trying to make a pyramid stand on its apex."

The State in India may make loans to agriculturists and others through co-operative societies for productive purposes and the Maclagan Committee has drawn the attention of the Government to this question.

196. Maclagan Committee's Report — A student of co-operation in India cannot find a better source of

guidance and information than the report of the Maclagan Committee to which we have frequently referred in this Chapter; and we commend to the reader a careful perusal of that report. From it he will see what the movement has so far achieved and what it is capable of achieving. He will also realize what are the weak and the strong points of the movement; and the directions in which it should develop will be clear to him. We can offer here only a rough and brief summary of that report :—

Introductory.

The report starts with a description of the depressed condition of the lower classes and of the remedial measures attempted by the State to improve it, and it observes that this action having proved partial and incomplete, Government turned to co-operation as the most hopeful method of dealing with the problem before it. The moral aspect of co-operation is then emphasised and it is stated that to true co-operation alone it is that " Government must look for the amelioration of the masses, and not to a pseudo-co-operative edifice, however imposing, which is built in ignorance of co-operative principles." The development of the co-operative movement is then traced from its inception to the time of the appointment of the Committee. The report then proceeds thus :—

It was inevitable in the beginning that credit societies should be mainly attended to but that a demand for non-credit forms of co-operation should arise was in itself a healthy sign. But such societies should arise spontaneously and satisfy a real need and a competent staff should be available to supervise them and deal with the complicated economic problems involved. Several non-agricultural and non-credit societies have been started for sale, purchase and other purposes. Societies for the benefit of weavers are welcome, but ' attempts to reorganize village industries on a more profitable basis should not be undertaken sporadically or fortuitously.' Certain types of societies like stores, often exhibit a tendency to ignore the moral basis of co-operation and care should be taken

by the Registrar that co-operative principles are followed by such societies, and that they do not become merely commercial and profit-hunting bodies

Though the primary object of the co-operative movement was to tackle the agrarian problem through it, it is necessary that non-agricultural societies also should grow up along with the agricultural. The wage earning, artisan and middle classes must be brought within the co-operative fold. Middle class urban banks are not strictly co-operative, but in the absence of joint stock banking facilities they are likely to serve a useful purpose With regard to banks for the use of large landed proprietors, corresponding to Land Mortgage Credit Associations, the establishment of well-conceived and well-administered banks of this type "would be a measure of great value not only to the proprietors themselves but also to the Government."

Primary Societies.

In the case of primary societies it is on three main requirements that their soundness is based, viz. (1) they must be co-operative; (2) they must also be businesslike and (3) they must be thoroughly well supervised. The area must be sufficiently restricted to enable members to exercise an effective mutual control, and their number should not be unduly large. Before a society is registered a scrutiny should be made into the kind of men it will deal with and their assets, working capital and so on. Teaching of co-operative principles in various ways must be arranged and proper men must be selected for the post of secretary and as members of the managing committee. Some provision is necessary for ascertaining the previous debts of members and, wherever possible, they may be gradually paid off rather than that they should be immediately cleared on admission. As regards the rate of the progress of the movement, there should be no attempt at forcing the pace and "except for special reasons, an increase in the number of societies should radiate from existing centres of co-operation and should be based on a well-informed desire to imitate existing good examples."

The capital of primary societies is composed of four items, (1) shares, (2) deposits, (3) loans and (4) surplus assets or reserve fund. The value of shares should not be unduly large so as to create disabilities against poor members and a maximum limit should be fixed to dividends. Value of shares may be deducted from loans granted to members and the principle of unlimited liability or rather "contributory unlimited liability" should be adhered to in the case of agricultural credit societies. The amount of deposits locally obtained has been comparatively small and "unless as the movement progresses, there is a substantial increase in this class of deposits it will have to be confessed that co-operation has failed in one of its main objects." Compulsory deposits from members are not desirable; and the term of deposits should not ordinarily be less than one year. Only two exceptions to this rule may be admitted: (1) short-term deposits are useful for temporary accommodation to meet demands for loans, and (2) savings deposits when small sums within strictly marked limits are taken and dealt with on lines similar to those of the Post Office Savings Banks.

The total borrowing powers of a society are fixed by the Central Bank and the Registrar, and the amount the society can lend is determined by this limit. But it is necessary for a society to fix the limit (1) up to which members as a body will pledge their liability and (2) to which members should individually be entitled to receive loans. Loans are given for the ordinary operations of agriculture and much assistance cannot be expected from co-operation for expensive improvements for which recourse must be had to Government. Periods for which loans should be given must be carefully worked out in view of the objects for which they have been made. Personal security ought to be the rule and sureties should be made to realise their responsibility. The mortgage of land should only be regarded as collateral security in addition to sureties.

The competition of societies has brought down the rates of outside money-lenders. 'So long as the rates of

societies are below those of the outside market, they cannot be regarded as excessive and there are many dangers in sudden or large reductions below such rates.' It must be emphasised that 'unless loans are repaid punctually, co-operation is both financially and educationally an illusion; and no exertions are wasted which aim at ensuring promptitude in this respect.' Disputes as to arrears should be referred to the Registrar and if he so directs, to arbitration. The Act provides for this arrangement. There is, however, a great difficulty in securing execution of the decisions; but it will not be advisable to accord to societies the privilege of summary procedure. An effort should be made to build up a reserve fund so as to make the society ultimately independent of outside help The surplus assets or reserve fund may properly be employed in the business of the society so long as proper provision is made for the necessary fluid resources Under the Act one-fourth of the net profits must be carried to a reserve fund and 10 per cent. of the remainder may be used for any charitable purpose with the sanction of the Registrar.

Periodical audit and constant supervision are necessary and for this purpose the official machinery must be sufficiently powerful. The audit must be comprehensive and thorough and should be carried out under State control at the present stage of the co-operative movement. The time is distant when the work of making the original audit can be taken up by societies themselves. The work of supervision should be carried out by unions, central banks and other bodies maintained by the societies themselves.

Central Banks.

Though the operations of a 'central bank' may cover a larger area, it is usually expected to finance primary societies within a single district or part of a district. Between such a bank and the primary societies, there is, in some Provinces, the link of 'guaranteeing unions' and their number in Burma is large. "The union is registered as a society with limited liability and mutual guarantee

is effected by a rule that each guaranteeing society shall be liable for any default by a society in the repayment of a loan recommended by the union to the extent of the maximum amount of its borrowings from non-members in the twelve months preceding a call." This kind of union is to be strongly recommended as it will be a great accession of strength to the movement.

Central banks perform the double function of balancing (1) the funds of societies and (2) supplying capital. There are now practically no Central Banks which undertake outside business and comparatively few which lend to individuals, but the time seems to have come when steps should be taken to bring to a close in all cases the practice of granting any loans except to registered societies. A Central Bank should cover as large an area as is compatible with convenience and efficiency. Under existing conditions it is much better to adhere to the system of independent central banks than to have branches of Provincial Banks. No loans should be granted to societies which are not share-holders. All shares held by individuals should be fully paid up and the use of reserve liability is to be deprecated.

The total liability attaching to shares, whether held by individuals or societies, should be limited to their face value. A maximum rate should be fixed for dividends, but it should be laid down on some logical principle. The deposits of these banks will not seriously compete with those of joint stock banks. Amounts held on current account should be covered by sufficient fluid resources. Savings accounts may also be opened but certain precautions must be observed. The area from which deposits may come, need not be restricted. The central banks may receive advances from Presidency Banks and joint stock banks in the form of cash credits. The system of debentures is not to be much relied upon in this connection. Loans to individuals are to be deprecated and central banks should not undertake any outside banking work. Credit of societies to which loans are to be made, should

be carefully assessed, particularly where there are no unions in existence, and the objects of the loans must be similarly scrutinized.

The period of loans must be conditioned by the period for which deposits are held, as the former, unlike the latter, is within the control of the Central Bank. Unfortunately the practice of many banks is not in accord with this sound principle. Cash credits should be given to societies which are thoroughly well managed and co-operative in character. The security required from societies for loans should ordinarily take the form of pro-notes and not the shares held by them in central banks. Every society and bank must have a reserve fund under the Act, but besides the Reserve Fund proper, which in the case of primary societies, is built up out of the indivisible net profits, there are the 'fluid resources' which must be carefully husbanded in order to enable societies and banks to meet the demands of depositors. In the absence of facilities for discounting co-operative paper this fluid resource should, in central banks, be sufficient to meet half the deposits due for payment within the next twelve months, a standard of one-third being held sufficient in the case of Provincial Banks.

Provincial Banks.

In each of the major provinces there should be one apex bank which will co ordinate and control the working of central banks; and they should be prohibited from dealing with each other or with Presidency or joint stock banks except through its medium. The Provincial Bank should itself be obliged to confine its dealings with co-operative institutions to Central Banks and leave to them the work of dealing with societies. The present organization throughout India is incomplete in this respect. Although in starting a Provincial Bank individual share-holders may have a preponderating influence, representing the business element, its constitution should be so framed as to give to affiliated co-operative institutions an opportunity at no distant date of securing a majority of votes at the general meeting.

The management of a Provincial Bank requires more expert knowledge and experience than that of a Central Bank, and it is desirable that the management should be mainly in the hands of business men. All central banks should be induced to become affiliated to the Provincial Bank, and the latter should grant no loans to societies capable of being affiliated to a Central Bank. Long-period deposits are necessary to Provincial Banks which should gradually accumulate surplus assets and good liquid securities in order that dependence on outside agencies may be diminished. Their fluid resources should be sufficient in amount to cover one-third of the possible liabilities of the Banks falling due in the course of the ensuing year.

The main business of a Provincial Bank should be to co-ordinate and control the finances of Central Banks, utilizing their surpluses and supplementing their deficiencies, and they should not embark in business outside the co-operative movement except in so far as it may be found necessary to lend or deposit spare funds for short periods in outside institutions.

General.

It may be generally stated that if provision is made to minimise undue official influence, the movement should not be deprived of the moral and financial support which Government servants give it. None of the powers of the Registrar should be devolved upon the Collectors. In certain Provinces the Collector or subdivisional officer is the chairman of a Central Bank. This practice is found to be beneficial and has its obvious advantages but these officers should not hold positions on the managing committees of central banks *ex-officio* or as an invariable rule.

operation to every phase of life where it is likely to prove helpful and (5) moulding the whole movement into a living, progressive, efficient, self-ruling, democratic and unified organization The questions, in short, are educational, financial, administrative and disciplinary, and are to be solved in a truly co-operative spirit which is practical and business-like.

198. Their Solution.—The primary society is the smallest unit and the foundation of the co operative superstructure. Societies of this type, however, can hardly secure funds enough to meet the necessities of their members and have to be financed by an outside banking institution. No bank will lend to its constituents without scrutinizing their economic position and ensuring the repayment of its loans in due time. Ordinary banks are not able to finance co operative societies and central or district banks have been now started in several districts all over the country, and they have the primary societies themselves as their members along with individual members. These banks have to inspect and strictly watch the operations of the affiliated societies and a special agency has to be employed for the purpose. Central banking unions constituted and run by primary societies, discharge the function of inspection in the Punjab; and in Madras, supervising unions are found to do this work successfully.

Finance and supervision are functions which cannot be easily combined and some method has to be devised by which central banks may secure the necessary scrutiny of primary societies. It is to serve this purpose that supervising unions exist in Madras and no loan can be taken by an affiliated society without their sanction. The Punjab banking union is an institution which stands midway between a district bank and the primary societies. The 'Guaranteeing Union' is a device which has been adopted to the same end in Burma, the C. P., Behar, and latterly in Bombay. It is in no sense a bank and handles no money. It aims at developing and supervising co-operative work within its area, and at serving as a link between the small

and scattered societies, of which it is composed, and their financing centre.[1]

The guaranteeing union is so called because the societies which are grouped together in it, guarantee to the central bank the credit of one another and through it, supervise the working of the whole group. The union assesses the credit of the affiliated societies and on the strength of its guarantee, the central banks gives cash credits to the societies. Each society has to accept a definite amount of liability to make good to the central bank any loss that may be incurred by it on account of default in payment by any member of the union. The limits of the liability undertaken by the societies are based upon different principles in different provinces. But the underlying idea is the same in all viz. that the primary societies have themselves to run an agency for supervision and mutual control and for securing loans from central banks without much difficulty and relieving the latter of a task which they are not expected efficiently to perform [2]

Mr. Ewbank's paper on guaranteeing unions, in 'Indian Co-operative Studies' edited by him, make out a strong case in support of these bodies and ably meets the objections raised against them. He enthusiastically visualises the future organization of the co-operative movement by saying that when primary societies are grouped in guaranteeing unions, the third statge will be ' a federation of unions in which the delegates of central banks and other types of co-operative institutions within their district will be represented.' A provincial co-operative council, according to him, will be the final step and every district association will be represented on it. Such an ideal must certainly

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1 Indian Co operative Studies. Mr. Ewbank's paper on guaranteeing unions.

2 The guaranteeing union is "a link between the central banks and the primary credit societies. It does the functions of a teacher as well as an inspector of the primary credit societies. It helps them to develop and at the same time it is an invaluable agent for co operative propaganda. It does not do any banking business."—W. L. Baretto A Catechism on Credit Co-operation.

be placed before themselves by co-operators and they must take steps to make the co-operative organization a kind of sovereign, democratic state with its organs well-regulated and firmly knit together by ties of mutual help and reciprocal control and responsibility, the larger State outside watching its progress with a keen solicitude to help it without interfering with it.

199. Co-operative Finance.—Finance is the very breath of the nostrils of the movement, and its success depends upon the economical and efficient methods adopted to finance it. The main object of credit co-operation is to put resourceless people into touch with capital and the money market. Deposits of members and share capital is an insignificant factor in the finance of primary societies and they have to borrow from banks which draw upon a larger reservoir and tap more productive sources. Urban banks, which were more favourably circumstanced for this purpose became, at the outset, a source of financial supply to them, and as the number of societies increased, central banks were started to render this service. By becoming members of these banks, which confined their lending to primary societies only, they could secure a share in the control of the financial machinery at the same time that they received the required accommodation. But the central banks, the management of which is naturally largely in the hands of urban people, had to undertake the duty of inspecting and controlling the borrowing rural banks. In certain Provinces, e. g. the C. P., the central bank has become the 'pivot of co-operative administration,' and the question has been rather hotly debated whether it is the proper function of central banks to control and regulate primary societies. When the number of societies was small and they were scattered, it was inevitable that central banks should combine finance with inspection, but with growth, specialization of functions must come and with it will come efficiency.

What is the true function of central banks and what place they ought to occupy in the co-operative movement,

has recently been the subject of animated discussion.[1] We do not think it possible to justify the usurpation by central banks of the duties of unions which are best fitted to inspect and control primary societies. And it is but right and proper that central banks should restrict themselves to their legitimate sphere of financing and should leave inspection, propaganda and other duties to unions which are better qualified to do the work and which ought to be encouraged to do it in order to spread the co-operative leaven among the people of rural areas. Concentration of the power of finance, regulation and control may be necessary in backward tracts and in the earliar stages, but the aim should be to raise the rural societies and associate them directly with the higher work of management and control.

The provincial or the apex bank stands at the head of the structure of the co operative movement. This bank has the same function to perform in relation to central banks as the latter perform with reference to primary societies. In certain provinces the apex bank was started by the central banks which felt the need of a central provincial financing institution; in others, they began as ordinary urban banks and have now assumed the role of banks dealing with central banks. One great want of the co-operative movement to day is the necessity of its being enabled to get into touch with the larger money market in the country and outside. But the Presidency Banks and the joint stock banks keep away from the movement for fear of being entangled in the risky and unprofitable business of financing co-operative societies. Co-operative paper cannot be discounted and co-operative banks can not realise their securities as ordinary banks can when they want to liquidate their assets Co-operative banks cannot, therefore, draw upon the wider market and have to be segregated within their limited financial range to the great inconvenience and disadvantage of the movement. Banking in India is notoriously backward and unorganized, and the financial possibilities of the country are not being

1. See the report of the third Annual Conference of the Indian Economic Association held at Madras.

developed with boldness and foresight. An all-India co-operative bank has been suggested as a remedy to meet the financial needs of co-operation,[1] and the utilization of India's reserves in London is being pressed as one of the means of helping the economic development of the country through co-operation Sir Daniel Hamilton is a zealous advocate of this scheme. He says:—"The trade balance which accumulates in these reserves has its source, chiefly, in the fields of the raiyat. It is part of the sale proceeds of his crops. The raiyat has, therefore, the first claim to the money and the Government is, in honour bound to link the raiyat on to his own, in the only way he can be linked on, that is, by pressing on with the development of the co-operative movement to its natural evolution in the proposed all-India Bank."

200. Other Questions.—The audit of co-operative societies is another vexed question. The duty of auditing the accounts of societies has been thrown by the Co-operative Societies Act upon the Registrar and his staff Co-operative organizations are not in a position to provide for their own audit and for many years to come, the work will have to be done by the Department. Auditing of accounts is a highly important check on the operations of societies and the healthy progress of the movement depends upon the efficient exercise of this control. At the present stage of the growth of co-operation, Government audit appears to be indispensable and the service should be rendered free by the State, the societies being hardly in a position to bear the additional charge. A time must soon come when co-operative societies will pay for audit and employ their own auditors, because the continued

1. "What agriculture requires is access to the money market and to Government funds on the same terms as commerce and industry. This might be secured if an All-India State Bank advocated by some, is formed as this besides taking over the state treasury work, would rediscount co operative paper. But...the problem will only be finally solved by the formation of an All India Co-operative bank with somewhat the same relation to Government as the Presidency-Banks now have."–Indian Co operative Studies, page 129.

dependence of the movement in this ... are the payment and the invocation of its interference and ...r, who brings desirable. ...on the enter-

The necessity of starting co-operative sto...lled profit. keenly felt during the time of war on account such a difficulty experienced by people of small means to s... come the necessaries of life and of the high prices demanded for them. The Triplicane Store in Madras is a typical institution of this character and the history of its progress is full of lessons that may be learned elsewhere. A central store has now been started in Bombay and it will prove helpful to the small stores that may be started outside, on account of its capacity to buy cheap and provide articles as they are required to the smaller institutions which will not have to depend upon local and other dealers.

The problem of housing is becoming more difficult every day in cities and large towns and the possibility of its being successfully tackled, has been demonstrated by the working of the housing societies in Bombay and other places. Societies for factory workers are an urgent need of the moment and with the awakening that has come over Indian labour they have great potentialities for good. Urban banks are capable of unlimited expansion as is shown by the success of several communal, middle class and Government servant societies; and the field for co-operative dairies is large with the milk problem insistently demanding solution. The urgent need of and the scope for co operative societies for production, purchase, sale and insurance, are admitted on all hands. What is required is a vigorous campaign of public education in co-operation and the voluntary and willing services of educated people, solicitors to bring the benefits of the movement within the reach of the mass of the population. Prejudice and lethargy among the educated classes must give place to reasoned faith and zealous activity. Central co-operative organizations started with a view to provide popular education, are a step in the right direction, and the cry on all sides is for more workers and funds.

muneration of the capitalist, and wages are the payment received by labourers. The entrepreneur, who brings together the agents of production and carries on the enterprise, is also rewarded with his share which a called profit. Specialization in production has now proceeded to such a length that different classes in the community have come to control different agents of production, though a combination of these last in the same hands is not uncommon. Shares in the national dividend obtained by these classes. correspond or should correspond to the contributions made by them to the production of wealth. And the remuneration of each contributor is determined by the social demand for his services.

In a previous Chapter[1] we remarked that the problem of production is the most important in India, that of distribution being comparatively subordinate. But this does not mean that the remuneration received by the different participants in wealth-creation, has no bearing upon the economic condition of society. And if one of them takes more out of the common stock than is due to him, the others have to suffer and their loss not only causes injustice and hardship but is likely to affect adversely the aggregate production, and therefore, the interests of the community as a whole. Hence the need of equitable and economically desirable distribution of wealth. The older economists trusted too much to the beneficent operation of competition but the domination of one class over another has led, especially under modern forms of organization of industry, to inequalities and to the rise of capitalism and socialism. The tenant and the labourer in India have not had their due while the landlord and the capitalist have become wealthy and powerful. Being unorganized the former have had to be protected by the State in several instances.

202. Wealth-Distribution :—Except when persons and families are self-sufficient, producing wealth for their own consumption, a constant exchange of commodities and services must take place among the members of a

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1 Pages 41, 42.

community. Even in the most primitive village, the peasant requires goods which he cannot produce and this need of exchange is greater in proportion to the progress of society, with its differentiation and spacializatation of functions. People are thus perpetually creating wealth in various forms and rendering services which go into a common stock, as it were, and they draw from it their share determind by the value of their own contribution to the community's aggregate income. The supply of these commodities and services contributed by individuals is itself the demand for other commodities and services and this process of the filling up and depletion of the common reservoir is constantly going on though it may not always be obvious to every body.

If we exclude those who cannot contribute to wealth-production, *e. g.* children and old men and those who will not produce or render services, beggars and thieves, other persons will be found to work in order to secure necessaries, comforts and luxuries. These latter are received in exchange for what they contribute to wealth-production. The fact that the remuneration is received in the form of money, does not alter the fundamental nature of the distribution of wealth. On what principle this distribution should take place and how the share of each contributor to the national income should be determined, are questions which have long been debated. The law of demand and supply, that is competion, is the main regulator of the shares, though the justice of this alloting of shares has been challenged. Communists and socialists would give to each person according to his needs or deserts, but these are not easy to determine; and besides the difficulty of making an equitable distribution, there is the other consideration about the effect of the alternative methods of distribution, upon production, and therefore upon the national dividend that will be available for distribution, that has an important bearing upon the condition of the community.

The inequality, the injustice and the comparatively unsatisfactory conditions of life which are involved in the uneven distribution of wealth, under the existing industrial system, have raised most difficult problems for which various solutions are being proposed and are responsible for most of the industrial unrest which prevails all over the world. It is now commonly agreed that without impairing the efficiency of production and weakening the stimulus to economic enterprise, each contributor to wealth-creation ought to be enabled to secure a decent amount of remuneration and that monopolistic earnings and incomes obtained at the cost of other members of society, should be rendered impossible. Custom was long the regulator of distribution in India and inequalities were suffered because they were regarded as natural and inevitable. But with the growing prevalence of modern economic conditions, competition is coming to play a more important part and with it a reaction in favour of equality and fair allocation of reward for services.

203. Profit.—Profit is the share in the national income that falls to the lot of the entrepreneur or manager of an industry. It is often times confused with interest and the ordinary remuneration of labour. Profit is, however, like rent, the excess of the selling price over cost of production. The marginal producer is just able to meet this cost, but the producer whose cost is less, derives a profit. In profit, as it is generally understood, there is always an element of wages or interest; but pure profits, in a state of competition, depend upon varying prices and costs.

The profits of Indian cultivators are thus regulated by the prices of agricultural products and the peculiar circumstances under which they produce. In times of scarcity, for example, the prevalent high prices favour cultivators in certain localities while their neighbours are great losers. The unsatisfactory condition of the American cotton crop will thus send up the prices of the Indian staple but in this case it is the middleman who is more

likely to get the advantage than the cultivator, though the latter does not fail to derive some benefit. Here luck or chance plays an important part; but permanent profits are the result of permanent advantages and favouring circumstances, which are, however, discounted by competition. The advantage of good soil, cheap credit, irrigational facilities, proximity to markets, utilization of improved manures and implements are these factors. But the profits will diminish or vanish as these advantages are shared by other cultivators. This does not make improvements meaningless because what is lost in falling prices, is gained in a larger output. And here we are speaking only of pure profits.

Profit in this sense of a differential gain, like rent, depends upon certain peculiar advantages, vanishing when these advantages vanish. It is for this reason said that profits may be reduced to a zero and yet an industry may continue to be carried on. The opening up of a part of the country by a railway or the establishment of a new market in the vicinity, has made agriculture more profitable in certain localities while that advantage is denied to less fortunate tracts in the interior. But ordinary profit becomes a part of the cost of production and however small it may be, it must be earned by all in order that they may carry on their industries. When the elements of rent, interest and wages are excluded, profit is the remuneration for the trouble of management. It is possible to find out the residue after the shares of all these factors are deducted from the price obtained for the produce and it may often be nil. A cultivator who takes a farm on lease, for instance, pays rent, wages and interest and retains an amount in his hands which is larger than what he would have obtained if he had worked for another and that amount is his profit. If no such surplus is left, he must be said to have earned no profits but obtained only ordinary wages. Where it is not the result of fortuitous circumstances, profit will be the reward for inventiveness, superior enterprise or efficient management.

204. Agricultural Profits.—Agricultural profits were comparatively steady when different parts of the country were isolated from one another and from the outside world, being disturbed only by scarcity or famine. But now India has been linked to foreign countries by railways and steamers, and competition also plays a more important part than before in the determination of profits. The demand for cotton, for example, in foreign markets, acts upon the price of the Indian staple, and the profits immediately go up with rising prices though they may be intercepted by middlemen as pointed out above, and may not always reach the actual producers. While, therefore, the cultivator in India may get out of the soil just enough to maintain himself and his family after meeting the cost of the cultivation, consisting of interest on capital, land revenue or rent and so forth, the profit will be only the wages of labour. A cultivator working on dry land may earn Rs. 16 per acre and on irrigated land twice as much. In certain circumstances, therefore, some margin will be left to him, which will be his profit.

The profits of the cultivator will increase if he can dispose of the factors of production more economically. If he utilizes to the utmost the materials and implements he possesses and bestows all his energies and care upon the business, he will be able to extract a larger output from the soil. The items of interest and rent take a heavy toll of the produce of agriculture and the surplus tends to become small. An adequate supply of cheap capital, combined with the enterprice and managing capacity of the farmer, must yield substantial profits. Improved implements, good seed and manures and advanced methods of cultivating and marketing, are factors which are calculated to make intensive farming profitable. In dry farming, much has to be left to chance and the returns are precarious. But even there, careful and judicious management does not go without its proper reward.

A farmer who possesses a large block of land enjoying the benefit of wells or irrigational canals and who has a stock of plough cattle as well as capital for seed and

manure, is able to make good profit and is well off. But usually the cultivator is just able to maintain himself and his family with their labour, and the income from the land owned or leased must be supplemented by wages earned elsewhere and in other ways.[1] Agricultural profit worthy of the name is obtained on irrigated land, for instance, where sugar-cane and commercial crops like cotton, are grown.[2] Owing to minute sub-division of land and want of capital, the profits of cultivation are usually very small. This fact is brought out in the inquiries which have been recently made into the family budgets of cultivators in different parts of the country.

205. Industrial Profits.–The above remarks apply *mutatis mutandis* to the ordinary artisan or craftsman also: Those engaged in domestic industries, the autonomous workers, will normally be able to get just enough to maintain themselves, that is, wages, unless the demand for their products increases and enhances prices. As we have shown in a preceding chapter, they may not be able even to get these wages and may have to give up their callings.[3] Condi-

1 See Dr. Mann's Life and Labour in a Deccan Village.

2 "How very large the margin of profit may thus become I can illustrate from my own experience with regard to the land round the city of Poona. Ten years ago, this land produced only a poor and uncertain crop of millets worth perhaps Rs. 5 or Rs. 10 an acre. Now the same land is covered from year to year with a magnificent crop of sugar cane, and when I left Poona the other day it was being sold as it stood on the ground for about Rs. 500 an acre. By this transformation the raiyat, from being a wretched starveling, ever on the borders of famine, becomes a substantial yeoman eager for further improvements and ready to pay for all the accommodation he requires"—Sir W. Wedderburn in a Paper on Agricultural Banks in India read before the Manchester Chamber of Commerce, in 1883.

3 "Taking India, as a whole, although there has been an increase in industrial prosperity and development in the period between the censuses of 1901 and 1911, competition with imported articles and the products of factories, organized on the latest methods and worked by machinery, have ruined many of the handicrafts, especially the hand-loom industry and compelled people to leave their ancestral vocations for other means of livelihood, notably agriculture."—K. L. Datta's Report on High Prices

tions created by the War. have favoured several classes of producers, who, in normal times, could just make a living or led precarious lives, and they have enjoyed a temporary spell of prosperity ; but the profits of these industries must disappear with the cessation of the war, unless economies are introduced in the meanwhile or prices remain at a sufficiently high level.

In the case of an autonomous producer, a master craftsman employing labour, the remuneration for management is substantial and can be easily distinguished, though that is not possible in the case of a small artisan working by himself or with the help of the members of his family, though, of course, the element of profit may be present even there. Several such craftsmen and artisans, rise from the position of humble wage earners and become employers of labour and earn profits from the industries organized by them. They save and borrow capital and are able to clear a margin after paying interest and wages. Many such builders, carpenters, weavers, shoemakers, tailors, contractors and shopkeepers may be seen on every hand at every place. And given the necessary ambition and enterprise, there is much scope for profit even in indigenous industries.

The profits of industries conducted on modern lines have been large enough. Cotton, jute, the plantation and the mining industries have a margin left to them which has encouraged the expansion of manufactures. "The number of these is, however, very small. The rise of prices has undoubtedly benefited them in as much as the price of articles produced by them, has in most cases far exceeded the cost of production." When competition is active, the general rate of profit will tend to be uniform and to diminish. Capital will flow into the comparatively more. remunerative industry and the level of prices and profits will be brought down. Customary profits also will be steady and in most rural parts in India, except when ·the equilibrium between the supply and the demand is disturbed by an economic crisis like a famine or the high prices ruling in the outside markets reach the country side.

206. Dividends.—Joint stock companies afford a good opportunity to persons who have small amounts of capital to invest and who want to share in the profits of our large manufacturing industries. Share holders receive not only interest upon the money they have put into the industrial or trading concern, but participate in the profits of management also. The concerns are managed by or are under the supervision of their representatives, the elected directors; and shareholders are entitled to receive a share in the profits. The holders of 'ordinary' shares are prepared to face the risks of loss in the hope of receiving such dividends normally as will more than make good occasional deficits. They participate in the control of business, and therefore, in profits and losses. Those who hold 'debenture' shares, are the creditors of the company and are content with a fixed rate of interest on their capital, which must be paid before profit is declared. They do not control the management and receive no profits. Holders of 'preference' shares are assured a fixed rate of profit and their claim must be satisfied before a dividend is paid on 'ordinary' shares, though they are not entitled to receive more when the company earns more. The device of joint stock companies, in this way, enables persons who could not conduct industries themselves, to become part proprietors and managers and to share in their profits which are an inducement to capital to flow into productive channels.

The Bombay mill industry reaped a rich harvest of profits when owing to the deficiency of the supply of foreign cloth, the level of the prices of indigenous piece goods rose during the war. How abnormally high profits may be earned by industries which are placed in exceptionally favourable circumstances, may be best illustrated by a reference to the huge amounts raked in by the jute mills during the four years ending in 1918. The amounts of the profis given below are arrived at after deducting the income tax and the supertax paid to Government. These huge profits were earned, be it remem-

bered, at a time when raw jute was very cheap and the Bengal cultivators suffered from low prices.

Years.		Net Profits. £	Ratio of Net Profits to paid up Capital Per cent.
1914	...	823,000	10
1915	...	4,661,000	58
1916	...	6,155,000	75
1917	...	4,305,000	49
1918	...	10,578,000	113

There are, of course, ups and downs in the condition of these industries, and in calculating profits we have to take the average of a few years. The scale of profit in the case of the cotton industry, for example, is regulated by the stocks of piece goods in the market, the price of raw cotton, the supply of coal and so forth. But on the whole, in industries carried on with the assistance of machinery and on a large scale, the rate of profit is sufficiently high. The shares of joint stock companies are quoted at high figures and the share holders of such concerns, large and small, participate in the industrial prosperity. The market quotations go up and down with speculation, but at bottom they an based upon the market rate of interest which is a constant regulator. The new mills and factories which are rising on every side, the gins and presses and the oil and flour mills as also sugar-cane crushers which are being set up, are evidence of the attractive profits that are earned in these concerns. It is also evidence of the diversion of industrial effort from one direction viz. the old, to others, the modern type of manufactures.

207. Interest.—The remuneration of capital in India is high, and it is notorious that rates of interest are usurious. There is never a uniform rate of interest any where, much less in a country like India though at any given time there is an interest rate for different species of capital depending upon security and other considerations. In western countries, the rate steadily went on falling for years till at last it has now been raised by the enormous

demand the War has made on capital throughout the world Where competition has free play and there are banking facilities, variations in the rate of interest are rare ; but in the absence of these conditions, it rules very high. It is also high where the supply of capital is inadequate, and millions of British capital have thus been attracted to the Colonies and to foreign countries.

As we shall presently show, usury is largely practised in India ; and though there is a strong popular feeling against unconsionable rates of interest, money-lending is extensively done by all classes of people. Some specialise in the business, but the nuember of a amateurish lenders of money is not small. That interest is a legitimate remuneration of capital which is wealth not consumed by the lender and placed at the disposal of the borrower, is well understood There is nothing inherently wrong in borrowing if it is resorted to for productive purposes or to tide over extraordinary difficulties. The money lender likewise renders a distinct service and deserves payment for it. We have shown in Chapter IV how important capital is as a factor in production and how industrial progress in India will be governed by the ease with which capital can be secured by producers of wealth. Capital will not be saved and accumulated unless there is inducement for people to do so. Interest is this inducement and money lenders and banks take it upon them to provide capital.

People who want to provide for the future, save and invest in different securities. Those who do not like to take risks and are anxious for a secure income, invest in Government loans or loans floated by public bodies and deposit their money at the postal savings banks from which the rate of interest obtained is low. Money lending is a troublesome business because it involves risks and litigation. But it is lucrative. Most of the ordinary money-lending is on the security of moveable and immoveable property. Mortgaging of lands and houses is extensively done by persons in difficulties, and several sowkars lend on mortgage with the view ultimately to acquire the mortgaged property on account of the inabi-

lity of the debtors to re-pay. Lending on the security of jewellery is regarded as the safest kind of transaction because the object pawned can be easily converted into cash. And people very often convert their savings into jewellery with the express object of having with them a security to offer for loans. Village sowkars very often take interest from cultivators in the form of grain and the harvesting season is the time for the collection of the amounts due.

208. Rate of Interest.—With increasing security of life and property, with the spread of education and the extension of banking facilities, the rate of interest slowly went down. Mr. Datta's inquiry led him to the conclusion that the rate of interest in India was steadily declining. He observes :—" The rate of interest on agricultural loans varies widely in different parts of India and even in the same place, according to the credibility of the cultivator or the security offered; thus in Bengal, it is said to be 36 per cent.; in Eastern Bengal, $37\frac{1}{2}$ to 75 per cent.; in the Central Provinces, anything from 6 to 100 per cent., and in Madras 6 to 36 per cent It is, therefore, difficult to collect statistics to show whether the rate has increased or decreased. But the general belief is that the rate of interest has been lowered except in some parts where restrictions have been placed by law on alienation of land, thus reducing the value of security. It seems from the evidence collected that this lowering of the rate has been due to increased wealth and a consequent increase in the number of money-lenders who compete with each other in reducing the rate. Co-operative credit societies have also doubtless contributed to these results in places where they have been constituted."[1]

But as capital is shy in India, it receives a more liberal remuneration than elsewhere. The ordinary producer has no capital of his own and must borrow at ruinous rates of interest. Without a wide expansion of banking facilities and a rapid spread of education, interest rates are not likely to be appreciably lowered in this coun-

1 Report on High Prices.

try. The war has made heavy demands on capital, and for years after the restoration of peace. its supply will be inadequate and therefore interest rates will remain at a pretty high level. They have already taken a big jump, and the tendency noticed above has been clearly arrested. Only a few years ago, money could be obtained for good security, at 4 to 5 per cent.; but now 9 to 12 per cent. is the ruling rate for the same loans.

The rate of interest on Government and other securities steadily decined for many years and only the war loans have now pushed it up. The recent ten years' bonds were offerded by Government at 6 per cent.; and this high rate has had its effect upon the general rate of interest. The decline in the purchasing power of money has a good deal to do with this phenomenon. It will take a long time for the rates to go down again as they are likely to be kept up by the large demand for industrial capital. In the busy season, the rate for temporary accommodation is high and this rate is always fluctuating. Money-lenders can always command a high return for their capital. and agriculturists. artisans, craftsmen, small traders and other needy people cannot borrow without paying a heavy price. There is an element of risk in these transactions, and the borrowers are very needy. Hence the prevalence of usury over almost all parts of the country.

209. Hindu Law.—The prejudice against the taking of interest which has prevailed in all countries, is attributable to the fact that before the era of large industries, money or goods were chiefly borrowed by people in difficulties or distress; and to demand a reward from the debtor for his use of the borrowed amount under such circumstances, was naturally regarded as cruel, and therefore, objectionable. In India the true nature of interest was clearly understood even in remote times and the law attempted to regulate its rate rather than to prohibit it altogether The distinction between a debt secured by a pledge and one unsecured, was clearly understood, and the Dharma Shastras have laid down definite injunctions on the subject.

Thus Manu says that 'a money lender may stipulate as an increase of his capital, for the interest. allowed by Vasistha, and take monthly the eightieth part of a hundred.'[1] This means a rate of interest of 15 per cent. per annum and is taken as having reference to a debt secured by a pledge. From inscriptions belonging to the second century of the Christian era, it is clear that the prevailing rate of interest was between 9 and 12 per cent. The guilds of those times took deposits and paid interest on them at the above rates. In the case of unsecured debts. Manu allows 2 per cent. per mensem, the higher rate being justified by the risk involved, 'for he who takes two in a hundred becomes not a sinner for gain'. The rate of interest was also to depend upon the caste of the borrower, the lower the caste the higher the rate.

Other law-givers such as Narada,[2] Brihaspati, Vasistha and Yadnavalkya lay down similar rules regarding rates of interest of which four different kinds are mentioned including compound interest; and it is stated that besides the general rules, there are special rules according to the local usages of the country where the loan has been made. The highest limit to which interest may be allowed to grow and above which it is not permissible, is double the amount of the principal.[3] A limit of three and even eight times is mentioned as obtaining in certain countries. Varying rates of interest are spoken of as chargeable on gold, grain, cloth &c. Taking of interest on loans made through friendship, is deprecated, unless there is an express agreement on the point; and even without agreement interest is supposed to accrue after six months. Usary is specifically condemned. Manu says :—"Stipulated interest beyond the legal rate, being against (the law) can not be recovered; they call that a usurious way (of lending). The lender is in no case entitled to more than five in the hundred."

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1. The Laws of Manu, VIII, 140
2. Narada, I, 98.
3 This rule is known even to-day as 'Damaduppat'.

210. Usury.—As in western countries, so in India, usury or exhorbitant and extortionate interest has thus always been considered as reprehensible and the State has every where endeavoured by means of legislation, to discourage it. We have shown above what is the spirit of Hindu law and usage in this respect. Islamic law prohibits usury altogether, and several strict Mahomedans do not take interest even on their deposits in savings banks and on Government securities. In 1914, the Government of India issued a circular letter to local Governments on the subject of the feasibility of preventing the use of civil courts as an agency for the realisation of usurious demands by moneylenders. The issues raised in the letter were, (1) whether the courts are as a matter of fact at present compelled to give effect to unconscionable contracts and to enforce the payment of inequitable and extortionate demands; (2) whether, if the answer is in the affirmative, this abuse of the authority of the courts has attained such dimensions that it is expedient to take steps to remedy it; and (3) in what manner it can be prevented without engendering consequences more prejudicial to the interests of those concerned than exist at present.

The main remedies, the letter went on to state, for the suppression of usury, were perhaps the following: (1) the fixing of a legal maximum rate of interest recoverable; (2) the determination of a legal maximum amount of interest recoverable, commonly known in India as the rate of Damdupat, and (3) the bestowal of authority on the courts to go behind a contract, re-open a transaction, and reduce the rate of interest to what is thought to be equitable. The third line of action has been embodied in the English Money-lenders' Act of 1900.

The Government of India anticipated and stated the various objections that might be raised against the undertaking of any legislation on these lines, For instance, it was contended that it would interfere with private contract, that it would increase litigation and harrass the ordinary operations of trade and that it would be ineffective. There was much force in these objections, and the results of the operation of the Deccan Agriculturists' Relief Act, have not proved very satisfactory. The Government of India itself wisely observed, in its letter, however, that it would not be right to argue that 'everything is the fault of the money-lender and that the debtor is always a blameless and injured innocent.'

Usury laws have been condemned by economists as a useless and undesirable interference with liberty, but this condemnation is based on the assumption that the loans rest upon the equality of business opportunity and the free competition of capital. "Under such conditions," Seligman points out.[1] "usury laws are futile and worse than futile, because they either tend to evasion or become a drag on industry." Where these conditions do not prevail and the lender is in a position to take an unfair advantage of the borrower. it is necessary to protect the latter. Laws in France, England, Germany and America, grant such protection to the borrowers, and in a country like India measures of this kind were absolutely necessary. As Gide points out, "it is no more of a contradiction to allow liberty as regards the rate of interest, while punishing those who make a profession of lending at a high rate, than it is to allow consumers the liberty to drink, while punishing publicans who supply drunken men." [2]

211. Usurious Loans Act.—The question of affording relief to debtors in cases of unconscionable bargains between money lenders and debtors, had been the subject of discussion in India for several years, especially in connection with the operation and the effects of the

1 Principles of Economics.

2 Political Economy.

Deccan Agriculturists Relief Act of 1879. The Indian Contracts Act Amendment Act of 1899 was passed in view of certain recommendations made by a commission appointed to inquire into the working of the above relief Act. The attention of Government was again drawn to the problem by the High Court of Calcutta and there was some discussion about it in 1906. But nothing was done at the time on the ground that circumstances were not favourable to legislation. The question could not, however, finally rest there, and as pointed out above, the Government of India consulted the Local Governments in 1914 with regard to legislation for the protection of debtors from extortionate creditors.

The proposals having been raceived with favour,. the Government of India at last brought in a usury bill, based upon the ideas referred to above, before the Supreme Legislative Council in September, 1917. The object of the measure was approved on all hands and the passage of the bill through the Council, was not a difficult matter. The bill, it need not be repeated, was based upon 'the principle of giving the courts authority to go behind a contract, to reopen the transaction, and to reduce the interest to an equitable amount.' It became law on 2nd March, 1918. It is to be seen what ameliorative effect the Act will produce upon the large class of helpless debtors which exists in India. The needs of the poor borrower are inexorable and he quietly submits to the extortions of the professional money-lender whose trade is not likely to be much affected by the rigours of the law.

The usurer will flourish so long as he secures easy victims. The ignorant, the needy, the extravagant and the unfortunate are the people on whom he fastens and fattens. He has risks to run as he deals with persons who have little security. The public must be protected from these harpies, but the most effective method of overcoming the evil is that of spreading education, teaching thrift and providing means for borrowing at reasonable rates of interest. The classes who save and lend, must receive due

renumeration for their trouble and sacrifice. This remuneration need not, however, he exorbitant and its rate will decline with the increase in the supply of loanable capital. Well-oganized banking, co-operative and joint stock, will go a long way in bringing down the rates of interest and to emancipate the poor and helpless classes of workers, agricultural or otherwise. It will, at the same time, provide facilities to those who will save, to earn a secure income from their savings.

CHAPTER XV.

Rent, Landlord and Tenant.

REFERENCES.

Systems of Land Tenure in various countries, (COBDEN CLUB PUBLICATION); The Fifth Report from the Select Committee of the House of Commons on the affairs of the East India Company; JOHN BRIGGS: Present land tax in India; JAMES CAIRD: Report on the economic condition of India; BADEN POWELL: Land systems of British India; R. C. DUTT. India in the Victorian age; India under early British Rule; and Open Letters to Lord Curzon on famines and land assessments in India; Government of India's Resolution on land revenue policy, 1902 G. V. JOSHI's writings and speeches; S. C. RAY: Land Revenue Administration in India; Report on the Administration of the Bombay Presidency, 1911.

212. Rent from land.—Having dealt, in the last Chapter, with shares in the national dividend appropriated to business organization and capital and reserving for the next Chapter, the consideration of the remuneration received by labour, we shall proceed to the consideration of the share of the remaining participant in production, *viz.* land. The word 'rent' is used in common parlance to connote the price paid for the use of a thing *e. g.* a house, a machine or a carriage. But more often it is associated in the popular mind with the price paid or obtained for the use of land. This income from land is independent of the returns received for the capital invested or the labour expended, and the theory which explains the emergence of land rent is famous in Political Economy. Pure economic rent is the income received by the owner of a property as a result of the advantage it enjoys in the matter of situation, productivity or other qualities, over other pro-

perties and is not earned by either the capital or the labour of the owner.[1]

This character of land rent, the limited supply of land, the national and economic importance of the food and raw materials land produces, the social effects of the possession of land by a certain class in the community,—all these factors have invested the question of rent with a peculiar interest. How land is held and owned, how it is hired out, how its produce is distributed and how the community is affected by land laws and land rent, are questions which have raised difficult problems in all countries. Schemes of land nationalization and of a single tax on land, have been discussed and the heavy taxation and absorption by the State of 'unearned increment' have been advocated. It is, therefore, necessary to deal here with the question of the land tenures which prevail in India, particularly because agriculture is the predominant industry of this country and the welfare of the mass of the population depends on the systems of land tenure and the share of the rayats in the produce of the lands they cultivate.

213. Hiring out Land.—The proprietor of land may either lease it to farmers and tenants or may cultivate it himself. If the land belongs to the community, the Government is the proprietor and leases it to tenants, who pay rent to it. If private individuals are proprietors, they receive the rent from their tenants. Where the first system prevails there is complete nationalization of land which is the ideal of many socialists, who regard landlords as parasites. The second system prevails very largely in England where the bulk of the land is owned by private proprietors. Hence the agitation in that country

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1. "Rent is due to *natural* variations in soils, or to the varying advantages given to sites, not by the owners of the sites, but by the distribution of population and the means of transport. If the payment of rent were stopped, the fertility of good soils and the convenience of good sites, would not diminish; for the rent receivers did not create and do not maintain that fertility and that convenience"—Henry Clay: Economics.

against unearned increment and the nationalization of land. Thirdly, the proprietor may cultivate the land himself, and France is the classical example of this system which also prevails in America. It is a system which is highly praised by economists and is held up to the imitation of nations where tenants cultivate the lands of proprietors.

Under certain circumstances, farm tenure is economically beneficial and socially unobjectionable. If the landlord takes interest in his land, puts capital into it and improves it, the fact of its being let out to a farmer cannot be urged as a disadvantage of the system. But such landlords are few, and generally land is neglected and tenants are oppressed. In the hands of the peasant proprietor, on the other hand, owing to 'the magic of private property,' land becomes more productive and from the point of view of the peasant as well as of society, this is very desirable. Even where land is hired out, the Metayage system,—under which the rent is payable in kind instead of in money and consists in a proportion of the crop instead of being fixed for a term of years,—is preferable.

More has perhaps been written about the systems of land tenure in India than in any other country, and it is after a prolonged and elaborate investigation and discussion that the rights of various parties such as the State, and the different grades of landlords and of tenants, have been determined with anything like precision. For more than 125 years, these questions have been debated, and even now the controversies are not at an end. Many held and hold to day that the State in India is the universal landlord, and therefore the land revenue received by Government is not a tax but is a rent which a proprietor may claim from his tenants. They, therefore, feel that land nationalization, which is only a distant and perhaps an unattainable ideal in other countries, is an accomplished fact in India except in those places where the Government has deliberately conferred the proprietorship of lands upon individuals. It is, therefore, usual to exclude land

revenue from the calculation of the amount of the burden of taxation that falls upon the people, as it is supposed to constitute rent which tenants have to pay to the landlord whether he is a private individual or the Government.

214. State-Landlordism.—State landlordism in India is not a mere theory; it underlies the land revenue policy of Government in actual practice. If the State is the landlord, it is entitled to take away the whole of the rent, leaving to the occupant the ordinary profits of agriculture which in practice may amount to bare subsistence and little more. Land rent is not always pure economic rent, being sometimes more and sometimes less than it, and Government in India, though it considers itself as the universal landlord, does not presume to take the whole of the rent but only a share of it.

It is not officially denied that the portion of the income from the land claimed by the Government was excessive and that the State demand was steadily moderated.[1] Lord Cornwallis's Permanent Settlement proceeded on the principle that the State was the proprietor of the soil. In that capacity it renounced its rights to a progressive share in the rental of the land. But it was the *rent* which was renounced; it was not *revenue.*[2] Mr. Wilson told the Legislative Council in 1860 that 'land revenue could only be regarded as rent,' and Mr. James Mill spoke in 1831 of *rent* of land in India having always been considered the *property* of Government. Though few have the hardi-hood now to reiterate the theory of state landlordism in all its nakedness in the face of its repudiation by authorities like the Court of Directors of the British East India Company, the Secretary of State for India and responsible officials and others who have studied the question closely, the land revenue policy of the State is actually animated by the exploded belief and veiled references are made to it from time to time.[3]

1 See Government of India's Resolution on Land Revenue Policy, 1902.

2 Sir Louis Mallet.

3 See G. V. Joshi's Writings and Speeches, page 573.

The assertion is found repeatedly made that land has, in the East, belonged to the sovereign from time immemorial, and that the British Government in this country only accepted the principle and followed the practice of the old rulers, having stepped into the shoes of the latter. The 'survey tenure' of the Bombay Presidency is described as the right of occupancy of 'Government land' continuable in perpetuity on payment of Government demand and transferable by inheritance, sale, gift or mortgage without other restrictions than the requirement to give notice to the authorities John Briggs[1] has examined the subject a great length and combated the assertion about the State being the universal landlord in the East. He observes :—"The preceding portion of the book has, I trust, proved that the occupant of the land alone was its sole proprietor; that the demand on him for contributing to the support of the State, was a sort of income tax, viz. a limited portion of the produce of his estate and that this portion was fixed in the time of peace but liable to increase in time of war and that under all circumstances, it left a certain surplus profit to the owner, equivalent to a rent. Moreover, I hope I have established that the sovereign never claimed to be the proprietor of the soil, but of the land tax he collected through local agents and expended it in such a way as the Government thought fit."

In a despatch to the Secretary of State, dated 8th June, 1880, Lord Lytton's Government observed :—" We do not accept the accuracy of the description that the tenure (of land in India) was that of cultivating tenants with the power to mortgage the land of the State and that land is the property of Government held by the occupant as tenant in hereditary succession so long as he pays the Government demand. On the contrary, the sale and mortgage of land were recognized under the native Governments before the establishment of British power......It has been one of the great objects of all the successive Government of India since the days of Lord Cornwallis, if not to create property in land, at all events to secure and fortify

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1 The Land Tax in India.

and develop it to the utmost. The Government undoubtedly is the owner of a first charge the amount of which is fixed by itself on the produce of all revenue-paying land in India; but over the greater part of the Indian Empire it is no more the owner of cultivated land than the owner of a rent charge in England is the owner of the land upon which it is charged. If the charge is fixed so high as to leave nothing for the cultivator, such a maintenance as will keep him from deserting the land, it may of course be said either that property in land does not exist or that it is worthless."

The old rulers never claimed to be the proprietors of the lands of their subjects, and for the expenses of Government took a certain defined share of produce of the fields, estimated at from one-tenth to one-sixth. The Mahomedan kings followed this practice and sometimes may have raised the share to one-third. So long as the tax was taken in kind, the system was most elastic, and in fact, the actual collection was adjusted to the yield. Even when in later years the grain share was commuted into money payment, the same elasticity was maintained and Government rarely worked up to the standard rates laid down.

215. Alleged Hindu Theory.—Property in land in India, as elsewhere, vested in private individuals, is not, of course, complete and is subject to the superior right of the State. But many people who want to make out that the Government in this country already owns all land and that land nationalization which is the aim of socialists in other countries, is here, an accepted fact, rely for a decisive authority for their view, upon stray references to the subject in ancient Sanskrit works and the land tenure system which prevails in Native States. We refer below to the opinion of Baden Powell in this connection. Mr. Vincent Smith, for example, has taken great pains, in his History of India, to prove that land[1] has belonged to the ruler in this country from time immemorial. He quotes a

1 The Oxford History of India, page 90.

remark of Abbe Duboi to the effect that in Malabar alone has proprietory right been preserved intact and that every where else the soil belongs to the ruler, the cultivator being merely his tenant.

Mr. Smith also cites the testimony of a commentator of Chanakya's Arthashastra, who declares that those who are well-versed in the scriptures, admit that the king is the owner of both land and water, and that the people can exercise their right of ownership over all other things except these two. But he altogether ignores the fact that the whole chapter in which the remarks commented upon occur, is devoted by Chanakya to the description of the duties of the Superintendent of Crown Lands, who, he says, 'shall employ slaves, labourers and prisoners to sow the seeds on crown lands which have been often satisfactorily ploughed.' It is but natural that rent should be taken by the king's Superintendent for the cultivation of crown lands from the tenants who are set to work them for want of an adequate supply of labourers working for a wage.

Mr. Vincent Smith proceeds to state that Kautilya appears to endorse the view of the commentator of his book alluded to above because of his instructions to the king that 'lands prepared for cultivation shall be given to tax payers (Karada) only for life (ekapurushikani)' and that 'lands may be confiscated from those who do not cultivate them.' But again, Mr. Smith does not care to consider the connection in which the above instructions are given by Chanakya. The chapter in which the author of the Arthashastra is represented as having supported the state proprietorship of land, is entitled 'formation of villages', and at the very outset states how 'either by inducing foreigners to immigrate or by causing the thickly populated centres of his own kingdom to send forth the excessive population the king may construct villages either on new sites or on old ruins.' This is obviously a deliberate creation of royal villages in which the ruler may rightly claim to be the owner of lands and it does not prove the state ownership of all lands.

As a sesult of his careful and extensive study of the land revenue question Mr. Baden Powell has deduced the conclusion that the theory about the state-ownership of land in India, is untenable. Despotic kings, divinely appointed to rule over the earth, could, of course, claim the proprietorship of any body's land or even all land. But this was a despot's fiat and not a legitimate claim. Mr. Hopkins[1] who holds the interesting view that 'the king owned the land, but did not draw rent from it,' asserts that there was a gradual tendency in India, which can be traced in legal literature, to regard the land of the peasant as belonging to him entirely and to resist the king's despotic claim to proprietorship Brihaspati speaks of the king's taking away a man's land as if it was a natural calamity which it was no use complaining about but which had to be meekly submitted to. But he goes on state :—"When land is taken from one man by the king actuated by anger or avarice or using fraudulent pretext, and bestowed on a different person as a mark of his favour. such a gift is not considered as valid." Why is not such a gift valid if all land belongs to the king? The law-giver, however, proceeds to observe :—" When (however) land is taken from a person enjoying it without a legitimate title of ownership, and given to a worthier person, (the latter) must not be deprived of it." [2]

216. Right of Proprietorship.—The British officers who were confronted with the task of revenue management in Bengal in the last quarter of the 18th century, were totally ignorant of the old system of land tenure and of taxation. They were confounded with the chaotic condition into which the province had been thrown and the conflicting claims which were put forward to proprietorship of land. Old records were searched and scrutinised and different systems of assessment and collection were tried. But the confusion continued and at last Lord Cornwallis felt that there was only one way out of the

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1 India, Old and New, page 225

2 Brihaspati XIX, 18, 22, 23.

difficulty and it was to recognize the hereditary landlords, collectors and farmers of revenue viz. the Jamindars, as proprietors who were to be held responsible for the payment of the dues of Government.

Baden Powell has given an extremely interesting account of the different ways in which, in the course of history, rights of proprietorship developed in the different parts of India. The old rulers levied a tax on all lands except those which were deliberately exempted from it viz., lands possessed by court favourites or persons who were rewarded for their services to the state, or religious institutions. Jahagir and Inam lands were of this class. Lands really belonged to those who or whose ancestors had cleared and reclaimed them. But in the vicissitudes of fortune, in times of foreign invasion and civil wars, these proprietors were dispossessed and were reduced to the condition of tenants. These conquerors were themselves later on made to give up their ownership when another wave of invaders or immigrants came, and they became tenants of a superior kind.

Old princes and chiefs who were thus brought under subjection, were often, as a matter of policy, continued in possession of their lands on condition that they collected and paid into the public treasury the tax levied upon their tenants, deducting and reserving a certain share thereof for themselves. Farmers of revenue and revenue officers of Government often made the lands, whose revenue they collected, their private property. Leaders of turbulent and restless tribes took advantage of the confusion of the times and also became proprietors. Several families of Jamindars and Talukdars thus came to have a share in the produce of the fields cultivated by inferior holders and tenants. They and village leaders were recognized by the British Government who settled with them what they were to pay to the State out of the rents they received.

217. Different Tenures.—The first two generations of British rule in India were spent in experiments in land revenue settlement. In Bengal the State dealt directly with landlords, and the tax levied on them was made per-

manent. This system was also adopted in north Madras. But in the North-Western Provinces, proprietors of large estates, Mahals or villages, jointly held by them in certain shares, were recognized and a lump assessment was levied on the rents received by them. In the Punjab land was generally held by peasant proprietors living in village communities, each village collectively paying the land tax, which was revised at each new settlement as in the North-Western Provinces. Government in Madras was inclined to recognize such village communities they found in existence there though the ties which bound the proprietors of land were not, like those in Northern India, ties of blood and common ancestry, supposed or real, but ties of a long residence in the same locality and of common interests. But the village community was there not recognized and was broken up when the Rayatwari system was introduced in the Madras Presidency.

In the Madras Administration report of 1855-56, rayatwari is thus explained:—"Under the rayatwari system every registered holder of land is recognized as its proprietor and pays direct to Government. He is at liberty to sublet his property or to transfer it by gift, sale, or mortgage. He cannot be ejected by Government so long as he pays the fixed assessment and has the option annually of increasing or diminishing his holding or of entirely abandoning it." The system in Bombay is also rayatwari and the so called 'occupant' is as much a proprietor of his land as his brother, the Jamindar of Bengal, the only difference being that in the case of the latter, the land tax is perpetually fixed whereas in the case of the former, it is liable to enhancement. "In Madras, the Government itself has stated that the distinguishing feature of rayatwari is the limitation in perpetuity of the demand of the State on the land. The rayats have thus all the advantages of the Zamindari tenure while the State has a valuable reserve of waste land, whence as cultivation extends, its resources will be augmented so as to meet the increasing demands on its finances which the progress of the country will entail: and in practice this

leading principle of rayatwari has never been infringed." But this principle of rayatwari is not observed in Madras and Bombay, and at each periodical revision the land tax is screwed up on the implied principle that the State is the landlord and is entitled to receive an increasing amount of rent from its tenants.

Three points must here be noted:—(1) The person with whom the State has settled its land revenue is the proprietor of the land, be he a Jamindar, a village community or a brotherhood or a peasant cultivating his own land and in whatever manner the right of proprietorship may have been acquired. Cases of cultivators who have taken Government land, waste or otherwise, on lease, on specific conditions, are, of course, exceptional. There may be inferior proprietors under them or proprietors having superior rights over them. The status and the rights of these have been now settled and their shares have been fixed; (2) except in Bengal and a part of Madras, the tax levied upon the Jamindar, the joint village, the brotherhood, the Malguzar, and the Talukdar, is subject to a periodical revision; and (3) in the case of landlords and joint village communities, the tax is a certain proportion of the rental or net assets, and in the case where the State deals direct with the actual cultivator, the tax is supposed to be a share in the net produce of each field.

218. Effects of the System.—The economic significance of these features of the principal systems of land tenure in India lies in their effect upon the condition of the agricultural industry and the cultivating classes. Where a Jamindar, a Talukdar, or a Malguzar has been recognised or created by Government to stand between itself and the tiller of the land, the State takes a certain well-defined share of the rent received by that landlord from his tenants, say 60 per cent. Such a large share could be justified on the ground of State proprietorship of land, but if it is a tax, it appears to be comparatively too heavy. In cases, as in Madras and Bombay, where the State deals direct with the cultivators, the State is supposed to step into the position of the landlord

and to take a portion of the economic rent from them. If the Government is not the landlord, its revenue is not rent, and this land tax of 50 or 60 per cent. and more,—at one time and in certain areas, it was avowedly as high as 70 per cent,—must have proved a crushing burden upon the agricultural industry and cannot but have acted prejudicially upon the condition of the people. What is more, the burden is liable to increase at every settlement because the State as landlord claims a share in the increasing net produce of the land. It is entirely due to the increased demand for India's staples abroad and by factories in this country and the high prices which have ruled in the market, that the ratio borne by the land revenue to the gross agricultural produce, has considerably declined and the resultant benefit has accrued to the landlord and the cultivator subject to the deduction that must be made for the higher cost of production.

The bad effects have been felt by the rayats for generations, and the State was itself moved to soften the rigour of its system. The latter fact is alone a sufficient condemnation of the system of land revenue under which the State presumes to take rent from cultivators in its capacity of universal landlord. The system has become out of date and must be radically altered. But so long as the principle of State land-lordism is there, animating the fiscal policy of Government, mere palliatives will be of no use. In the matter of other industries, if a tax tends to fall on capital and to hamper their development, the State is called upon to and does refrain from imposing it. The agricultural industry, however—the premier industry of the country—one which is admittedly in a deplorable condition, is exposed to a heavy tax which may amount to the whole economic rent or even may eat into the rayats' wages earned in that industry or by outside work. In his minute on Indian land revenue, Sir Louis Mallet remarked:—"On the one hand, we see a system which sweeps into the coffer of the State fifty per cent. or more of the net produce of the soil, thus diverting a fund which, in countries where private property is absolute, would, to a

great extent, find its way back again into channels of agricultural improvement. But the amount of the produce thus diverted is not only large—it is also uncertain."[1]

Dr. Gilbert Stater is one of the most recent and the most emphatic exponents of the theory of land revenue being a rent in India. He maintains that the State is a part owner if not the full proprietor of all land except in cases where it has itself parted with its rights. Thus according to him, when the State takes Rs. 10 out of the Rs. 50 which a pattadar, derives as economic rent, the State is really 'taking none of the income that belongs to the Pattadar, but instead, is allowing him to appropriate, in addition to the Rs. 25 which is the utmost to which he had any equitable claim, a further income of Rs. 15 which by right belongs to the people of the country in their collective capacity.'[3] We frankly recognize the legitimacy and the reasonableness of the State taxing the landlord or the cultivator like any other class of people for the benefit of the community; and what should be the incidence of the tax on landed income and on unearned increment, is a question open to discussion. But the claim of the State to share in the produce of land in its capacity as the landlord, cannot be admitted, because that claim would entitle Government to take the whole amount of the economic rent which rightfully belongs to the cultivator-proprietor of land. Nor does the consideration that Government takes a steadily decreasing proportion of the gross produce as revenue, prove anything beyond the fact that it used to tax the rayat heavily and now feels the justice and the neccessity of relieving the burden of the cultivator.

The old rulers did tax the land, but never set themselves up as the proprietors. They took one-sixth or one-eighth of the gross produce and the tax was taken in kind. Metayage prevailed largely in India as it prevails in certain parts to-day, and was very advantageous to the

1 See Dutt's "Open Letters to Lord Curzon", pages 184–185.

2 Some South Indian Villages, page 238.

cultivator. The Government took as a tax a share of the grain actually produced, and this tax varied according to the quantity of the yield. The commutation of the payment of corn into money payments and the rigidity of revenue collection, deprived the system of all elasticity and made the lot of the cultivator harder; and thus was it that sympathetic and careful students of that system like James Caird, felt inclined to suggest a restoration of the old Matayer system. Taking the system as it was, Mr. Caird also recommended the conversion of the rayat's tenure into a free-hold. He wrote:—"Whilst the majority of the Indian cultivators may indeed find it necessary to adhere to the Native principle of continuous tenancy, a Government such as ours in India, should offer every facility for changing the tenure to free hold, both because it can be done without loss of revenue and when done and in the process of doing, that change would enlist the willing help of the most numerous and most industrious classes in improving the yield of the land and unite their interest with that of the rulers through whom their possessions would be assured."

219. Reform Needed.—A flourishing and contented peasantry is the backbone of a nation, and agriculture may be described, at least in India, as a 'key industry'; and it is necessary for the State to pursue a policy which will promote the economic well-being of the cultivating classes. It is for this reason that a peasant proprietorship is favoured in all countries. That is also the reason why a moderate assessment of revenue, which will not be enhanced for a pretty long period, if not a permanent settlement of it, has been recommended to Government[1] If

1 Dutt's "Open Letters to Lord Curzon."

there is an outcry in England against land-lords and their unearned increment, the conditions there are quite different from those in India, and the policy of the British Government in ameliorating the condition of the Irish tenantry is an example in point. John Briggs writes:—" We have but one alternative, and that is to acknowledge, in the first place, the fallacy of that doctrine which assumes a right to take the whole surplus profit from the land-holder, and to recognize the opposite maxim that the more which is left in his hands the greater will be his means to contribute to the national wealth, and consequently to the public revenue."[1]

But if the State does not, in its capacity of land-lord, take rent from the rayat, some one else will, as rent must be paid for land. No. If the cultivator is the real proprietor, the Mirasdar,[2] as in the Deccan, under the old rulers, he has no rent to pay, though he may pay a small land tax. The bulk of the agricultural profits will remain to fructify in his pocket. Is not the cultivator, however, extravagant and is it not better that the surplus produce should be taken by the State to be usefully spent on social improvements? We leave this argument to refute itself. It will take us into the realm of the theory of taxation but, at any rate, it knocks the bottom out of the theory of State land-lordism. If the cultivator is extravagant, the artisan, the craftsman, the labourer, are all equally so, and if in a general and equitable system of national taxation, the cultivator must pay a land tax at a

1 The Present Land Tax in India.

2 "The Mirasdar was the freeman of the village, his land was heritable and transferrable and he held at a fixed assessment, though under the Mahratta Government he was liable to demands on account of extra cesses. In former times the name of the Mirasdar carried some degree of distinction with it, and the position was regarded as an enviable one.......The most remarkable incident of the tenure was that it was nominally at any rate not subject to forfeiture for default of revenue payment or even for the abandonment of his village by the Mirasdar unless he was absent for a longer period than thirty years."—Selections from the Records of the Bombay Government, No. DXXIV—New Series.

certain rate let him be made to pay it by all means. But then do not regard him as a tenant—an occupant of Government land paying rent to the State.

It is also urged that the value of land is steadily going up and that it is an indication that the burden of the land tax is not heavy. There is so much subletting of land in the country, it is contended, and the under-tenants can afford to pay rent to the occupant of land and maintain themselves decently; land revenue is likewise paid without any difficulty:—all which goes to show that the rayatwari and other Indian systems of tenure do not press on the agricultural classes. Land and rental values have indeed risen in many parts of the country, and the assessment to be paid to Government, is found to bear a smaller ratio to the rents paid to landlords, being from $\frac{1}{3}$ to $\frac{1}{5}$. The information given in settlement reports and collected in the course of village inquiries, shows how matters are improving in this regard; but the increased cost of production and the enhancement in revenue effected at each resettlement rob the cultivator of the benefit resulting from high prices. The competition of people who have no other means of subsistence and who have overcrowded the agricultural industry, is probably more responsible for this phenomenon than any thing else in may parts of the country while the higher prices now-a-days fetched by land produce are an important factor elsewhere. The immobility of population, the dignity which is associated with farming, the prevalent notion that land offers a superior security for investment, are also causes which are present in varying degrees in different places. The Indian cultivator again is not to be compared with the English or American farmer, armed with capital and carrying on his industry on a large scale. The prevailing high prices during the past few years have certainly benefited several cultivators, and lease-holders have been paying higher rents to landlords.

220. Protection of Tenants.—While, therefore, it is necessary that the theory of State-landlordism should be given up, peasant proprietorship should be encouraged

and the land tax should be moderated so as to leave more in the hands of the cultivators, it is equally necessary that the interests of tenants and subtenants who pay rent to private landlords, should be properly safeguarded. The State has a duty to perform as much towards the tenants of the Jamindars and other landlords whose rental it shares as towards the peasant proprietors, the rayats, whom it directly taxes. When Lord Cornwallis settled with the Bengal Jamindars and made the tax they had to pay permanent, he expected not only that the payment of State revenue would become secure, but also that the landlords would improve their estates and that the condition of the tenants under them would steadily become better.[1] But these expectations were not fulfilled and the state of the Bengal tenantry continued to be deplorable for two generations.

The land tax in Bengal was pitched sufficiently high, being nine-tenths of the rental, and as it was permanently fixed, the tenants could not pay their dues to the landlords and the Zamindars could not meet their obligations to the State. The tenants had little protection against exactions and were harshly treated. Security of State revenue required that the Zamindars should be enabled to collect their rents from their tenants with ease; otherwise they would not be in a position to pay the land tax to Government. Regulations passed in 1812 and 1822, gave little relief to the tenants, and one important duty of the State which ought to have been discharged early in the last century and which practically formed a part of the general policy of the Permanent Settlement, was neglected.

Tenants, all the world over, require protection against landlords, and it is extended to them in the form of fixity of tenure and fair rents. While the Government of India dealt with the Jamindars and took as its share a certain

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1 "I should hope that the profits of the Zamindars would in time exceed this proportian (nine-tenths of the rental) by a due attention to the improvement of their lands and the encouragement of their Rayats."–John Shore.

portion of the rental, it left them to collect whatever rents they could from their tenants. For a long time the status and rights of different kinds of tenants in the various Provinces had remained in a condition of uncertainty. Inquiries were, however, made, and in the course of the latter part of the last century, the position of the tenants was defined and their rights were secured. This is a piece of work done by the State, the importance of which it is impossible to overestimate.

As we have already pointed out, landlord rights had grown up in a variety of ways, and it was no easy task to determine the landlords' relations to the different kinds of tenants. A wave of immigrants came into a province and reduced the landlords there, the descendants of the first settlers, to the position of tenants. The latter had rights, however, which were superior to those of the other cultivators who came later. Thus there were in Bengal the Talukdars and Tenure holders who occupied a specially favourable position which had to be recognized; and the Khod-khast rayats or those who cultivated the lands where they resided, were, therefore, given leases without any limitation of period as against the Pykost rayats or those who cultivated the land of villages where they did not reside, and who held their lands upon a more indefinite tenure. Tenants-at-will stood on the lowest rung of the tenure ladder.

221. Tenancy Acts.—It was in the year 1859 that the first modern Indian tenant law was made in Bengal, and in 1885 the Bengal Tenancy Act was passed, removing the defects of the earlier legislation and more elaborately securing the status and privileges of all classes of tenants. "The Act provides that every rayat who has held any land in a village for 12 years, acquires thereby a right of occupancy, and 80 to 90 per cent. of rayats have such rights. A small number of rayats hold at fixed rates of rent and the remainder are without a right of occupancy. Even the latter, however, cannot be ejected except in execution of the decree of a competent court, nor can their rents be enhanced at shorter intervals than five

years. The Act was amended by Bengal Act I of 1907, with the object of giving greater facilities to landlords for the collection of rent and at the same time of guarding against enhancement of rent by collusive compromises, and removing the ambiguities, anomalies and defects brought to light by twenty years' experience of the working of the Act."[1]

The Bengal Act of 1859 was extended to the North-Western Provinces and it gave the right of occupancy to all tenants who had occupied their lands continuously for 12 years. The Agra Tenancy Act of 1901 provided that the change of a holding or dispossession for less than a year should not operate as a break in the period of twelve years. It also provided that a lease, unless it was for at least 7 years, could not bar the accrual of occupancy rights, the object being to induce landlords to grant their tenants long-term leases even if they did not wish that the tenants should acquire any rights. The rights of non-occupancy tenants also have been secured and if their rents are enhanced, they are entitled to hold lands at those rents for at least five years.

The position of the tenant in the Central Provinces is much stronger than elsewhere. There the Government determines, at each settlement, not only the amount payable to itself by the landlord, but the rent he is to receive from his tenants. The right of the "absolute occupancy" tenant is heritable and transferable, subject to pre-emption on the part of the landlord, and includes fixity of rent for the term of the settlement. The occupancy tenants have their rents fixed at settlement which are liable to enhancement by a revenue officer at intervals of not less than ten years. The position of 'absolute occupancy' tenants is special and their rights cannot be acquired, but the rights of the other class can be obtained by the payment of a premium of 7½ years' rental. By the act of 1898 the rents of non-occupancy tenants have been fixed at settlement and exhorbitant rents are liable to be

1 Decennial Report on the Moral and Material Condition of India, 1913.

reduced, the right of transfer being withdrawn as in the case of occupancy tenants.

In the Punjab, half of the land is cultivated by peasant proprietors and some ten per cent. is held by tenants, who, on historical grounds, have been recognized as occupancy tenants with special rights and the remaining 40 per cent is held by tenants-at-will. Occupancy tenants are protected by law from arbitrary ejectment and enhancement of rent. The other tenants may be ejected or have their rents enhanced, but if they are ejected, they can claim compensation for improvements made by them. By the Alienation of Land Act of 1900, the Punjab Government sought to remedy the evil of the passing away of lands into the hands of moneyed classes from the possession of the old agricultural tribes, by imposing restrictions on alienation.

In the Jamindari areas of Madras, the rights of tenants have been secured by the Madras Estates Land Act of 1909 which repealed and re-enacted the old Madras Rent Recovery Act of 1865. The main principle of the Act is that every cultivator admitted by the landholder to the cultivation of the estate lands has the status of an occupancy rayat who is protected against eviction so long as he continues to pay the prescribed rates of rent. Enhancement of rent is allowed only on certain clearly defined grounds and a non-occupancy tenant also may acquire occupancy rights under certain conditions.

222. Bombay Tenures.—In the rayatwari tracts of Madras and in Bombay, the rayats are in reality, as we have shown above, proprietors of their lands, subject to the regular payment of the land tax to Government. There are other tenures in the Bombay Presidency besides the 'rayatwari' or 'survey tenure,' but they are confined to small areas and to a small section of the population. There is the Inam tenure, under which Government has alienated a part or whole of its claims to revenue. Grants of full or partial exemption of land revenue were made by former rulers as a reward for services done or to be done and to religious institutions. The old Government

imposed upon the grantees a quit rent in lieu of a variable land tax; and 'Jahagirs' and 'Inams' were granted in return for services to be rendered by the holders to the State. They have been continued on certain conditions and services have been commuted, in several cases, into money payments. The Talukdars of Gujarat are the descendants of old ruling families, and pay *Jama* to the Government which is either permanently fixed or liable to enhancement. There are also the *Vanta*, *Mehwasi*, *Narwadari* and *Bhagdari* tenures in Gujarat, under which the landholders pay to Government either a quit rent or the usual assessment. These tenures have much in common with those prevailing in northern India and are to be traced to the same causes.

The *Khots* of Ratnagiri and Kolaba districts, were settlers of villages and collectors of revenue, on whom proprietory rights were conferred. The class of cultivators called *Dharekaris*, who are the descendants of old settlers, are not their tenants, however, and only pay the survey assessment, thus occupying a privileged position. But other tenants have to pay to the Khots certain additional amounts, and the land-lords are responsible for the collection and payment of the assessment into the Government treasury. In Ratnagiri this tenure is governed by a special Khoti Act of 1880, which has not, however, been extended to Kolaba as it should have been. The question of protecting the tenants of peasant proprietors or survey occupants in the Presidency, has been under the consideration of Government, as it is felt that the rights of these tenants also require safeguarding.

There is nowadays a tendency among the tenants of private landlords to show a spirit of independence and to resist any extra demands of a feudal character made upon them by their landlords who never lose an opportunity to raise their rents. As elsewhere, there are good landlords and bad landlords in India, and the position of tenants will not improve unless their relations towards those whose lands they cultivate are regulated by contract rather than by custom. The relations bet-

ween the two parties have, therefore, become strained in several places. The inquiry into the condition of the tenants of indigo planters in Champaran in Bihar and the agrarian legislation it has recently led to, revealed an astonishing state of things there. The *tin-khatia* system under which the planters compelled the tenants to grow indigo in certain selected portions of land, the low price which was paid for the produce, the exactions which were levied upon the cultivators under the names of *Sharabesi* and *tavan*, have all been condemned and the tenants have been emancipated from their condition of serfdom by the recent law which was strenuously opposed by the indigo-planters, a majority of whom are wealthy Europeans.

223. Redemption of Rent.—The provisions of the tenancy laws are calculated to make the cultivators feel a sense of security and freedom and to encourage them to pursue their calling with greater interest. These measures are, therefore, economically and socially most beneficial. The landlords complain that their rights have been invaded and that the laws press severely upon them. The ideal system of tenure is that which makes for efficient farming and creates a happy peasantry. The tenancy laws must be so framed and worked that friction between landlord and tenant will be minimised and not intensified. In England, agricultural income is assessed to the income tax and the land tax is allowed to be redeemed, producing barely three quarters of a million at the present day. Certain important concessions and deductions have been allowed since 1896 with regard to the payment of the land tax. We should like to see this system introduced in India

There is, likewise, an obligation upon the State to impose upon itself the same restrictions in its relations with the rayats and landlords whom it taxes, as are imposed upon landlords by the Tenancy Acts. It has, therefore, been suggested that the rayats should be allowed and assisted to redeem the obligation to pay an annual land tax, and to change the tenure to freehold property,—at

least to lighten the burden of the land tax so long as this is not done. If land revenue is not a rent, as we contend, there is no question of the redemption of a rent charge by the payment of a capitalised amount. All income from land must be taxed subject to exemptions which are allowed under all good systems of taxation. Similarly with regard to private landlords, it has been suggested that the State should encourage and facilitate the redemption of rent and other charges paid by the rayats to the Jamindars and revenue free and tenure holders. This is the direction which agrarian reform should take if a prosperous, sturdy and contented peasantry is to be created out of the present thriftless and poverty stricken mass of cultivators.[1] We shall refer to this question again in the Chapter on Taxation.

It is sufficient to remark here that land should be held in such a way that the tenure will promote social well-being. The ultimate justification of private property in such a socially, economically and politically important form of wealth and instrument of wealth-production as land, must rest upon national utility. Even those who favour the nationalization of land and other forms of capital, have to concede the necessity of maintaining the private property of small, autonomous producers. The growing tendencies towards democracy in India will mean a weakening of the position of landlordism and capitalism. But it is not correct to say that land nationalization is already in existence in India and that this country is in advance in that respect of Great Britain, or that the interests of the country lie in regarding the land of cultivators as state property. The problem indeed is not easy. If land passes into the hands of non-cultivating classes, agriculture is likely to be neglected, but it will be equally neglected or will be inefficiently carried on if the cultivators are men without capital and enterprise. Land will pass to those who save from those who do not and cannot save, what-

1 Read Ranade's "Prussian Land Legislation and the Bengal Tenancy Bill" in his Essays on Indian Economics.

ever measures the State may take to prevent this transfer. Lord Cornwallis, it was believed, brought English ideas into this country, unsuited to its peculiar conditions. It was thought proper that English landlords should be supported so that they might supply senators, sages and heroes to the nation. In India, however, it was stated, 'we do not want generals, statesmen and legislators—we want industrious husbandmen'. The State has, however, to guard against the danger of having neither an opulent nobility nor a sturdy yeomanry. That is the problem to be faced.

CHAPTER XVI.

Workmen and Wages.

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224. Remuneration of Labour—As rent is the remuneration of the landlord and interest that of the capitalist, wages are the remuneration of the labourer. Wages are a price paid for the use of labour as rent and interest are prices paid for the use of land and capital. In the last Chapter we considered the dependence of the condition of the cultivator on the system of land tenure; in this we have to point out the mutual relation of the system of industrial organization and the condition of workmen. The cultivator or tenant, whether he owns his land or not, is a sort of industrial manager if he manages the business of the farm and employs workmen on it and his profit is conditioned by the nature of the soil, the capital he can command and the rent he has to pay to Government or another landlord. If he works in the field he owns or takes on lease, or labours on the farm of another, the remuneration he obtains is the wage for his labour. The craftsman and the artisan have the same double capacity. From the economic and social points of view, the question of wages is important on account of the fact that on the condition of the wage-earner depends not only the efficiency of wealth-production but the well-being of the bulk of the population and therefore the whole community.

In practice, it is often difficult to distinguish the share appropriated to labour from that obtained by other

factors of production. In agricultural and non-agricultural industries where the workman combines in himself the characters of organizer, labourer, landlord and also capitalist, the remuneration due to each one of these agents, it is not easy to point out. But such a workman must receive at least the wages of his labour; otherwise, he will starve or give up his work. Under the modern system of industry, the autonomous workman who manages his own industry, has tended to disappear and a distinct class of labourers or wage-earners has arisen which has nothing to do with organization and management and which is confined to the job it is employed to execute. The factory system, under which the employer engages and controls hundreds or even thousands of workmen, has created a cleavage between the two, and the class conflict has become very acute. Those who command capital, command and control labour; and it is felt by workmen that their share in the joint product, is deliberately and selfishly kept low by the employer.

It is contended on the side of the employers that wages must be determined by the supply of and demand for labour and that they cannot be artificially raised. Strikes and labour agitation for higher wages, are, from this point of view, futile and suicidal. On the other hand, the wage-earners plead that employers take a disproportionately large share of the joint product and that they must be forced to give up their ill-gotten gains. Labourers, therefore, organize themselves, and by means of collective bargaining, which is substituted for individual bargains, so disadvantageous to workmen, extort higher remuneration and better conditions of work from the employers The State has passed laws for their protection, and systematic attempts are made to decide disputes between capital and labour by conciliation and arbitration. In the contract between capital and labour, the latter is certainly at a disadvantage and hence the need of protecting and strengthening its position.

225. Position in India.—It is not, however, only the question of the amount of wages and the conditions of work in factories, that is at issue between employers and

workmen. The latter are claiming a share in the management and control of industry, and the very wage system is being challenged. The socialists' demand for the nationalization of the instruments of production, means nothing less than a revolution in the existing economic organization, and the claim to fewer hours of work and higher wages, is only a palliative that must serve only till the radical cure can be applied. The factory system, with the evils associated with it, gave rise to the labour movement and supplied the strongest justification for the growth of socialism. The movement has now become international and a world movement and India has been swept into its orbit by the unrest created by the war and the attention focussed upon the condition and rights of factory labour in this country. The last International Labour Conference was attended by representatives of Indian labour, of course, nominated by Government; and with the growth of the factory system, western conditions are being reproduced here in respect of the struggle of workmen to attain their legitimate position

The war has given a tremendous stimulus to the labour movement in this country and capitalists and employers have already sounded a note of alarm. They maintain that much of the unrest and discontent prevailing among the working classes is due to the mischievous incitement of busy-bodies who do not care to realize the difficulties of the position in which they dabble. Such outside interference is certainly in evidence in several strikes of workmen but under the circumstances it is inevitable. As labour is organized and trained it will be able to take better care of itself. Such organization is proceeding apace and organized labour was not slow to convene an All India Labour Conference and to ask that its representative on the International Conference and Permanent Labour Office should be elected by the workers themselves and should not be nominated by Government.

It is, of course, obvious that economic and social conditions in India are different from those prevailing in western countries and therefore the solutions of labour problems proposed by the international conference must be

modified in their application to India. The draft convention drawn up at the Peace Conference recognized this fact and allowed for the differences in industrial, climatic and other conditions. Indian labour will, however, legitimately demand that subject to this differentiation, it must have its rights recognized and must be accorded a fair and just treatment.[1]

226. Chief Features of the Problem.—In considering the problem of wages and of the general condition of workmen, we have to fix our attention upon (1) the wage contract, (2) the rates of wages obtained by different classes of workmen, (3) the factors which govern these rates, (4) the conditions in which labourers have to work, (5) the safeguards the State has provided for the fair treatment of workmen and measures taken for ensuring their safety, good housing and health, and (6) organizations of workmen started and conducted to protect and promote the interests of members and to ameliorate their economic and social condition. Unless all these questions are carefully studied, it is impossible to obtain a correct idea of the condition of workmen and the measures which are necessary to improve it.

It used to be long stated that the labour or wages question in India was not as urgent or difficult as it was in other countries, that the supply of labour was plentiful and cheap and that the relations between employers and workmen were satisfactory. What the

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[1] "I need hardly say that the great diversity of physical conditions affecting employment in India, the lack of education among workers, and consequent low standard of comfort and absence of organization, the usually poor physique of Indian labour, and its inability to concentrate effort over a shorter working period, the preponderating importance of agriculture and the lack of specialization and skill among industrial workers render it impossible to translate propositions which are accepted in western countries as natural into terms applicable to India, or to devise any formula which will convert the Indian factors into Western equivalents......But, while we recognize this, we believe that there is a quickening consciousness throughout the country generally that the existing state of affairs is unsatisfactory and unworthy of India's political aspirations."—Lord Chelmsford's speech in the Supreme Legislative Council, 3rd September, 1919.

statement was perhaps intended to convey was that the factory system had not yet established itself in this country to such an extent as to create a large discontented class of wage-earners crowded in cities and at the mercy of employers. The bulk of our workers are indeed autonomous producers, cultivators and handicraftsmen, and a very small proportion are mere receivers of a wage. Most of them live in villages and small towns, and their wages are regulated by custom. But this state of things is being fast modified on account of a general rise of prices, the extension of the means of communication, the increase in the number of factories, the decay of old indigenous industries, and a growing tendency towards migration. And the condition of factory workers in industrial centres and on plantations has not at all been satisfactory. Being ignorant and unorganized, they and other labourers were docile and contented with their lot and little disposed to grumble and fight for their rights. This produced a false impression as to the general condition of Indian labour, which is now being rapidly dissipated. Labour conditions vary from province to province and industry to industry to such an extent that it is difficult and dangerous to generalise in this matter. But there are many points which are common to particular classes of workers in the different parts of the country. An attempt will here be made only to indicate roughly the position of labour in relation to the points noted above.

227. Labour Contract.—A contract for the hire of labour between the master and the servant and between the industrial employer and the workman has been recognized in India from ancient times by the usages and laws of the country and it was enforceable by the rulers. The injunctions of the old Hindu lawgivers which crystalised prevalent customs, are clear on the question of the agreements relating to wages; and employers and labourers not performing their part of the agreement are made liable to fines. Slaves appear to have been common and were employed to do dirty work.

Slavery has long disappeared but a system which is akin to serfdom is to be found in several rural areas. The

condition of the labourers is deplorable and they serve their employers on a mere pittance. One also comes across forced labour or *begar* and *vetha* in the case of lower classes of workers.[1] This old fendal system is, however, rapidly disappearing and the development of society from status to contract, is very rapid. Village economy has been disorganized and the customary relations of different classes and castes towards one another, are changing. The practice of unpaid customary labour is dying out, and the urban and modern system is taking its place. The Government of Bombay, for example, state in their Resolution on the Land Revenue Administration Report for 1908–09, that "in the Surat District, the Anavala Brahmin is losing the services of his halis or hereditary serfs, and everywhere customory tasks at customary wages are giving way to full contracts."

An attitude of independence on the part of labour is everywhere visible and particularly in cities and in centers of commerce and industry. Labourers have become conscious of their importance and of their place in industrial economy, and the growing demand for their services has largely contributed to this result. Domestic servants and unskilled labourers show this tendency as much as factory workers and artisans. A sort of a wage-earners' contract is becoming common and the workers insist upon its terms being strictly observed by the employers. Factory Acts have laid down certain conditions of work and imposed obligations on the employers, and workmen have realised that they have rights on which they can take their stand.

Another factor that must be borne in mind in this connection, is the constancy or otherwise of employment.

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1 "If a poor man required Rs. 100 to enable him to get married or to clear himself from debt, he would mortgage his service for a period of about five years and receive this Rs. 100 in advance; while the mortgagee was bound to feed him during the period of service. Many of the Deshmukhs, Deshpandes, and rich landholders engaged labour in this way; and the practice continued in some degree to quite recent times. In the days when land was available for all, however, it would have been only the very poorest who would mortgage their labour in this way, or even engage themselves as yearly tenants."—Keatinge: Rural Economy in the Bombay Deccan, page 67.

When the labourer is bound by contract, he has the advantage of continuous employment, though his wages may be low. Agricultural labourers and workmen engaged in industries which work only during certain seasons, like ginning for instance, are thrown out of employment at the end of the season. The living of most unskilled labourers is, therefore, precarious and they turn from one job to another and suffer when there is no work to do. Higher rates of wages must compensate them for this occasional loss of employment

228. Indenture System.—The system of indentured labour under which coolies emigrated to the Colonies in large numbers, has been strongly condemned as degrading and demoralisng and is on the way of total abolition. Indentured emigration to Natal was stopped in 1911, the Emigration Act of 1908 having been suitably amended in 1910 for the purpose at the instance of the late Mr. Gokhale. who, two years later, moved another resolution recommending that Government should "take the necessary steps to prohibit the recruitment of Indian labourers under contract of indenture, whether for employment at home or in any British Colony."[1] Objection having been taken to his comparison between the system of indenture and slavery, Mr. Gokhale replied:—"It is true that the system is not actual slavery, but it is also true that it is not far from it. The contract is not a free contract. You have here the right of private arrest, just as they had in the case of slavery. Moreover, the labourer is bound to his employer for five years and he cannot withdraw from the contract during that period. And there are those harsh punishments for trivial faults. Therefore, though the system cannot be called actual slavery, it is really not far removed from it."

A strong case was made out against indentured emigration to Colonies like Trinidad, British Guiana, Jamaica and Fiji, and as a temporary war measure it was stopped early in 1917. The interests of the employers in the Colonies have all along stood in the way, and all arguments in

1 See Mr. Gokhale's Speeches. pages 604 643.

favour of the system such as the economic benefit derived by the labourers, were proved to be unsubstantial in a despatch sent by Lord Hardinge's Government on that subject to the Secretary of State. In a despatch to the Government of India, dated September, 1917, the Secretary of State for India remarked:—" I agree with Your Excellency's Government that any new system of emigration must be free from the suspicion of liability to the charges brought against the old system that it was based on fraudulent recruitment; that it involved slavery for men and that it resulted in the prostitution of women."

The question was considered by an Inter-Departmental Conference in London and a new scheme for a system of free emigrations assisted by the Colonial administrations was evolved. It is stated that under the new scheme, while all the advantages of the old system are retained and even improved, the emigrant labourer will not be bound to any employer except for the first six months of his stay in the colony. The difficulty of solving the problem lies in ensuring complete liberty to the labourer and at the same time, in giving him effective protection against fraud or ill-treatment. Under a free contract, it is pointed out, the position of the emigrant is likely to be worse and all emigration to the colonies will have to be prohibited. In any case, there must be no return to the indenture system under a new name and Government must stick to the principle that it is not the business of India to supply coolies for the exploitation of the resources of the colonies. With the labour upheaval which has burst out in India serfdom in the form of indentured labour is no longer possible.

For several years an indentured labour system prevailed in India itself, *e. g.* in Assam, where the tea planters imported coolies for their gardens from the neighbouring provinces. For more than sixty years, 'questions relating to the supply of labour for the tea industry in Assam, the condition of the labourers on the estates and the enactment and working of special labour laws, have attracted much attention and have formed the subject of several detailed

investigations by specially appointed committees.' The law in this matter was amended and consolidated by the Assam Labour and Emigration Act of 1901. This Act too was amended in 1908 and a steadily increasing proportion of the immigrant labour was engaged under ordinary contract, Government having gradually withdrawn successive districts in Assam from the operations of the Act of 1901 which authorised an indenture system.

The Assam system had two salient features: penal contract with the labourer enforceable through the criminal courts and provisions for the protection of the labourer. Coolies were recruited through (1) contractors and (2) garden *Sardars*, persons employed by the planters. Indentured labour has now ceased altogether and recruitment by contractors, which led to many abuses has been abolished. Labour in Assam is now free, though recruitment is regulated by law and is now controlled by a special Board consisting of representatives of the planters and an officer of Government.

229. Rise in Wages.—(2) During a few years preceding the War, wages of all kinds of labour rose. The statistics available on this point, are not very accurate and cannot, therefore, be relied on. We have also to take note of circumstances which accompany the money wage in order to find out 'real' wages. From every Province, however, came the report that there was a general rise in wages. In Madras, for instance, "the wages of unskilled labour have everywhere shown a marked tendency to rise...Domestic wages have certainly risen, and Government servants on low pay have for several years past, been granted grain compensation allowances ...The monthly rates of wages for farm servants, however, followed the general rise. Wages of artisans also rose." In Burma, "during the ten years (1901-10) the translation from a natural to a money economy has made further progress. Most agricultural labour, however, is still paid in kind, and the field labourer's wages as measurad in money have therefore risen in Lower Burma. In Upper Burma also agricultural wages tend to rise, owing to the

increased annual exodus of field labourers to Lower Burma." " In the Punjab, cash wages are steadily displacing old customary wages in kind, the process being in many parts already complete. At the same time wages of unskilled labourers and of skilled artisans have doubled in the past twenty years, the greater portion of the advance having taken place in the last ten years, and in particular since 1905. This increase represents an increase in real wages though not of the same extent as in the rupees equivalent, and marks the operation of the law of supply and demand emancipated from the dead hand of custom."[1] These instances are typical of what is happening all over the country.

Mr. K. L. Datta has compiled the following table showing nominal and real wages :—

I.

	Nominal wages.				
	1895	1900	1905	1910	1912
Rural.					
Agricultural labourers	105	125	147	170	189
Village artisans	107	127	149	173	191
Average ...	106	126	148	171	190
Urban.					
Skilled labourers	106	122	143	167	183
Unskilled "	108	127	151	177	198
Domestic servants	104	117	131	147	159
Average ...	106	123	142	165	181
Cities.					
Skilled labourers	105	122	142	167	177
Unskilled "	104	123	140	167	179
Domestic servants	102	118	134	149	159
Average ...	104	122	139	163	174

1 Decennial Moral and Material Progress Report, 1913.

II.

	Real wages.				
	1895 to 1899	1900 to 1904	1905 to 1909	1910	1912
Rural.					
Agricultural labourers ...	103	120	123	134	138
Village artisans	105	122	124	135	138
Average ...	104	121	123	135	138
Urban.					
Skilled labourers	104	119	120	132	134
Unskilled "	106	122	125	135	145
Domestic servants	100	116	108	117	116
Average ...	108	118	119	131	133
Cities.					
Skilled labourers	105	118	120	131	130
Unskilled "	104	117	120	131	132
Domestic servants	102	113	111	111	116
Average ...	105	117	118	129	128

If different industries are taken, it will be found that the rise in wages was not uniform. It is curious to notice that 'the coolies in tea gardens appear to be in the worst position, as their *real* wages have fallen 5 per cent. below those in the basic period,' though it is pointed out that these laboures get rice at a fixed rate, generally lower than the market rate. The comparative lowness of the wage on the tea gardens struck the committee which inquired into the question of Assam labour in 1906. The Diector of statistics observes.—" It is interesting to note that the rise in the wages of industrial labour has not been so great as in the case of agricultural labourers and village artisans. Money wages have over long periods increased in all industries, and the rise has generally been greater than or equal to the rise in retail prices except in the tea, sugar and brewing industries. An examination of Indian

wage statistics during the last decade shows that this is certainly the labourer's day."[1]

The rise in wages can, of course, be beneficial to labourers only when the prices of their necessaries of life have not gone up in proportion, or the general purchasing power of the money wages has increased. If the field labourer is paid in kind and food grains become dearer, he obviously benefits; but if he has to purchase food with his money wages, the increase in wages must be greater than the rise in prices. The factory labourer may have to pay more for rent, food and clothing and he may be none the better for enhanced wages. 'In Bengal,' we are told, 'the labouring classes were not much affected by high level of prices. The great majority are field labourers, who are mostly paid in kind. Their wages remain the same, but the value of grain has risen. When they are paid in cash, their wages have increased, notably in Bengal, where the supply of labour is frequently short of the demand.' Many factors have to be taken into calculation, therefore, in estimating the effect of higher money wages upon the condition of the labour.

230. War and Wages.—An unprecedented increase in wages is one of the effects of war conditions combined with the famine of 1918. The demand for labour was large during war time and prices of the necessaries of life were steadily rising. The cost of living reached a level at which it threatened to stand permanently. At any rate all classes of labour found it impossible to support life on the prevailing rates of wages. The general averages of index numbers computed on the rates of wage-earners in different industries during January of

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1 Review of the Trade of India in 1913–14.

each year from 1915 to 1918 as compared with the pre-war period are given below :—

Movement of Industrial Wages.

Induistries		1914	1915	1916	1917	1918
Cotton, Bombay	...	100	103	103	106	129
Wool, Cawnpur	...	100	112	108	117	118
Mining (coal) Bengal.		100	100	100	108	116
Tea, Assam	...	100	102	103	109	119
Brewing, Punjab	...	100	101	109	121	130
Jute, Bengal	...	100	101	100	101	103
Paper, Bengal	...	100	99	99	99	100
Rice, Rangoon	...	100	100	100	100	100

The famine which prevailed over large parts of the country in 1918 and the continued scarcity and high prices of certain necessaries of life, caused a demand for increase in wages everywhere. There were numerous strikes all over the country for a rise in wages and the demand had be conceded. The wages of domestic servants and of agricultural labour had to be increased all round, and the salaries of Government and private servants had to be considerably advanced. The rise in wages came after the rise in general prices. The successful labour strikes for wages show how workmen were driven by the intolerably high cost of living to prefer a demand for an increase and how employers could not refuse to comply with it.

231. Causes of the Rise.— (3) The law of demand and supply is, of course, a great regulator of prices and among them of the prices of labour. Workmen of a particular class may be in greater demand at a time and naturally their wages must go up. That is certainly one of the causes of the recent rise in wages in India, and it is intensified by the immobility of labour and, therefore, by a lack of competition. The available supply has also diminished owing to deaths due to plague, which alone has carried off nearly a crore of people since its advent into this country. And the havoc made by influenza in 1918 told visibly upon the supply of labour. High mortality among labourers has thinned their ranks and it seems to be an important factor in the situation.

A general rise in prices is another cause of the increase in the scale of wages. Economists have discussed various theories concerning wages, such as the cost-of-production theory, the wages-fund theory, the standard-of-life theory and the productivity theory of wages. None of these theories is satisfactory by itself, though each one of them contains some truth, and they are complementary to one another. Wages will rise if the wealth produced by a community increases owing to greater efficiency or the application of more capital. But the workmen must be sufficiently organized and intelligent to secure their proper share of the increased out-put of wealth. Similarly workmen come to have a certain standard of life which steadily improves and necessitates the payment of a higher wage.

Higher prices and increasing wants regulate the remuneration workmen must receive if they are not tied down by custom. Generally wages lag behind prices and gradually overtake them. Take, for instance, the case of an unskilled labourer in a city like Poona. The normal daily wage of such a labourer twenty five years ago was four annas. But at that time, Bajri used to sell at 16 seers and rice 10 seers a rupee; house rent was low, vegetable oil sold at 4 seers per rupee and, on the whole, necessaries of life were cheap. Now the labourer seldom gets 5 seers of Bajri, 4 seers of rice and $1\frac{1}{4}$ seers of oil per rupee, and it is no wonder if he demands 12 annas a day as his wage. Indian labour is now being better organized and is becoming more intelligent, especially in large industrial centres, and its desmand for higher wages in response to dearer living, can no longer be ignored. In Bombay, Ahmadabad, Madras and many other places the strike weapon has been successfully used to extort higher wages.

231. Factory Life.—As to (4) conditions of work they depend upon the kind of industry in which the labourer is engaged. Work in the field is, of course, the best from the point of view of the labourer's health, and though village sanitation in India is far from satisfactory, life in the open air and in cottages or small houses is

preferable to residence in over-crowded tenements in cities. There is doubtless much sweating in some of the home industries, but on the whole, there is greater freedom enjoyed by operatives engaged in indigenous industries of the old type.

It is machinery working in stuffy rooms in the midst of noise and constant bustle, and the continuous strain which labour in factories and workshops imposes that tell upon the health of the operatives. The autonomous worker is his own master and he and the members of his family, who may have to work long hours, have still the consciousness of independence and enjoy an amount of liberty which is denied to the operatives working for a master. The latter have to toil at their wearisome task and their lot is often hard. The social effects of the factory system on labourers are very detrimental, especially when women are employed. There is no one to look after the children left at home and the domestic life of the operatives is rendered miserable.

The jobber supplies labour in several Indian mills and acts as a middleman, This system frees the employers from all worry about the supply of labour, but it places the workmen at the mercy of an unscrupulous person bent upon personal gain. Wages are not paid weekly as in England and operatives have to borrow to satisfy their daily requirements. Wages are ususlly kept in arrears and are paid weeks after they are due. Children are made to work in factories when they should live a life of freedom in the open air, and this leads to the physical deterioration of the young generation of working men. There is no' home' for workmen when their wives have also to work in factories. The health of children must suffer under these conditions. The position of artisans, like the carpenter and the mason, is far better; their wages are high; they enjoy great liberty and their work is not so taxing.

233. Factory Acts.—(5) It was, therefore, to the factory operatives that attention was early directed, and experience of western countries led the State to legislate for their protection. As textile and other factories on modern lines multiplied in the country, conditions of work

in them had to be controlled in the interest of the operatives. The latest piece of factory legislation is the Indian Factories Act of 1911 which repealed the earlier Act of 1881, amended by the Act of 1891. This last Act provided for the fencing of machinery, and for the promulgation of rules as to water supply, ventilation &c. The hours of employment for women and children were prescribed and the appointment of inspectors of factories was provided for.

The increasing use of electricity in the Bombay mills made it possible for the operative to work for 14 or 15 hours a day, and the industrial boom of 1904–5 made such excessive hours of work notorious. On hearing complaints of such abuses, Government ordered an enquiry to be made into the question by a committee in 1906 and by a commission which reported two years later. The maiority of the commission deprecated any limitation of the working hours of male adults. But they recommended the creation of a class of "young persons" between 14 and 17 years of age who were not to work for more than 12 hours a day, thus indirectly limiting the hours of work for adults to 12. The Act of 1911 shortened the hours of children's and women's work, and as the evil of excessive hours of work was found prevalent in textile factories, it restricted the hours of employment of adult males there to 12 hours a day.

This provision about the limitation of hours of work was regarded as extraordinary, and as an unnecessary encroachment upon individual liberty. Some mill-owners indeed welcomed the restriction as calculated to prove beneficial to the operatives and to enhance their efficiency But others strenuously opposed the innovation as injurious to the interests of workmen as well as to those of employers. It was said that the evil complained of was not widespread; that the operative did not want the limitation of hours; that they worked willingly for a longer time as they obtained higher wages for the additional work; that the work did not put an excessive tax on the health or the energy of the workers; and that the agita-

tion in the press for restriction was misleading and not entirely unselfish.

In the course of his remarks on the Factories Bill in the Viceregal Council[1] the Hon'ble Mr. Dadabhoy presented the following portrait of the Indian factory worker:— "The Indian operative is not capable of concentrated or continuous labour or of prolonged and sustained effort. He is by nature not disposed to take his work seriously; he has an incurable habit of spreading the work he has to perform over a long period of time; he invariably works in an easy, careless, perfunctory manner; he must needs loiter in the midst of work, and he, as though intuitively, makes up for prolonged hours of work by being slack during no inconsiderable portion of his routine work. His work is done neither with strenuousness nor alacrity and compares most unfavourably with the standard enforced in European countries."

The Indian factory labourer has produced the same impression upon visitors from foreign countries. But his laziness and lack of concentration did not justify excessive hours of work at noisy, nerve-racking machines in the midst of surroundings that were bound to tell upon his health. And the accounts which were published, of the conditions in which the mill hands lived and worked and earned their wages, could not but excite the sympathy of the public; and, in the long run, it was felt, the employers themselves were bound to suffer owing to a loss of efficiency in their workpeople. Factory owners are not, however, inclined to look ahead or feel for their labourers as they feel for their profits; and though there are honourable exceptions, this is the usual conflict of interest between capital and labour.

234. Labour Organizations.—(6) Labourers in India have been, until recently, almost absolutely unorganized,[2]

1 3rd. January, 1911.

2 "For the present the condition of the Indian working man is wonderfully like that of the English working woman. He does not understand his own position well enough to enable him to act effectively. Only the faintest glimmer of Trade Unionism is streaking his horizon with light."—J. Ramsay Macdonald: The Awakening of India.

ignorant and unenterprising. The Indian factory worker does not usually settle in or near the industrial centre; he has his ancestral home and patch of land, perhaps the property of a joint family, to which he returns during certain seasons of the year. He supplements the family income by his wages as a factory operative A proletariat is being steadily formed in this country; but it does not yet consist, as in the West, of landless men who have made crowded cities their homes and who have little to draw them away to the village. This is, from one point of view, a satisfactory feature of the workman's life; but from the point of view of the work in the factory, it leads to disorganization and waste. "The employer of labour in this country," it is said, therefore, "is wholly at the mercy of his operatives."

We used to hear, now and again, of small strikes among factory hands but the use of this weapon was neither systematic nor sustained. The strikes among factory workers at Ahmedabad and postmen in Bombay in 1918 showed how a substantial increase of wages could be obtained by concerted and sustained action on the part of mill hands and also how employers could resist extravagant demands by means of organized opposition. The strike was long only a mild way of ventilating grievances and there were no labour organizations behind the workmen most of whom are illiterate. Neither employers nor workmen, as corporate bodies, had made satisfactory arrangements for the performance of functions which, trade unions in the West have taken upon themselves.[1]

During the past few years, however, systematic efforts have been made to organize labour and labour unions were

1 "The jobber is still the master of the situation and finds it to his interest that there should be frequent changes among the hands."—Collector of Bombay, reviewing Report of the Chief Inspector of Factories in 1912. Mr. J. Ramsay Macdonald thus described the situation:—"One finds this industrial class swarming in over-crowded coolies' lines, sometimes regimented by an overseer to whom the workers owe their job and who in consequence demands commissions from them, sometimes living in ordinary working class parts of the town under exceptionally hard conditions."

first started in Madras. The movement has now spread and different classes of workers, in different parts of the country, are being organized in unions. It will take some time before they assume the shape and the functions of labour organizations in western countries but they are clearly moving in that direction. An All India Labour Conference, convened to elect a representative for attending the international labour conference, is a significant move and shows the trend of the movement in India.

235. Employers' Duty.—A few conscientious employers are trying to provide good houses and other amenities of life to their workmen and education to their children; and the arrangements made in this connection are satisfactory. The example must, however, be widely copied, and employers must realise that action in this direction is as much in their own interest as in that of the working men. No one would like to have here the labour troubles that have now become a common chronic feature of industrial life in the West. But the remedy for this does not lie in keeping workmen ignorant and unorganized; it lies rather in timely measures taken to avoid the mistakes and to prevent the evils of the West. The time seems to be coming when the Indian workmen will appreciate the remark of a leader of Western labour that "one with an experience of the West must look upon this commercial philanthropy with grave misgiving, whatever immediate benefit it may be to the workers."[1]

In the face of the illiteracy that prevails in the country and of the apathy on the part of workmen as well as employers, the solution of the problem is very difficult. The operatives are at the mercy of jobbers and money-lenders to whom they are driven by ignorance,[2] extrava-

1 J. Ramsay Macdonald.

2 "It should always be remembered that the Indian labourer must be led and not driven. He is not as is the inhabitant of western lands consumed by the desire to rise in the world. The caste and joint family system hold him back and he is content with the same simple fare and surroundings as his father had before him. If dissatisfied with conditions of work in the town, he will make no complaint but go back to his village life."—Fremantle: Report on the Condition of Labour in the United Provinces.

gance and vice. Disorganization of the old social and economic system and illiteracy are the two principal obstacles in the way of the promotion of the well-being of the working classes. The problem must be tackled from the two ends, the employer and the workpeople. The employers in their own interest, have to organize the supply of labour and promote its efficiency. The labour population in towns is a floating population and employers are not sure if their money would be usefully spent on its improvement. But it is pointed out that if life in the centres of industry is made more attractive than it now is, the workmen may be induced to live there, more or less permanently, in spite of their attachment to the village home and lands. The proper housing of factory hands, the education of their children and a general improvement in the conditions of work in factories, are directions in which reform is required. There has already been much talk about these questions, but there are only a few isolated instances of employers who have taken them up seriously. On the whole, there is apathy and lack of concerted action in these matters.[1]

In other countries there are splendid organizations of workmen, and they have now won for themselves an important place in public life. Their action is both beneficent and militant. The trade unions help their members in a variety of ways and try generally to improve the position of the working classes. On the militant side also they have won success, particularly in lessening hours of work and increasing wages, and the State itself has come to the assistance of the labourers by making arrangements

1 In the Tata Iron and Steel Works at Sakchi, up-to-date and ideal arrangements have been made for the housing and the general comfort of labourers. But even at Jamshedpur there was recently a strike on a large scale which indicated the advent of new conditions. Employers of labour in several cotton mills and other factories are also making similar provision. 'Welfare funds' have thus been started in connection with certain mills in Bombay and large amounts taken out of profits are to be utilised in promoting the well-being of the operatives. Dispenaries and grain shops are attached to factories and chawls have been erected in the vicinity of mills for housing workmen.

for old age pensions, insurance against sickness and disablement. There is unfortunately a tendency among workmen to go to extremes in the matter of strikes and here they have lost public sympathy which is their great asset.

Unskilled labourers and women are, as a rule, at a disadvantage and have to be content with low wages and unsatisfactory conditions of work. But coolies in docks and other places where great physical strength is required in lifting and carrying about heavy loads, earn high wages. In India, labourers are scattered, except in large industrial centres, and concerted action is impossible in their case. The old caste organizations are unsuited to factory life as in factories there is a promiscuous mixing up of people of different castes. The lives of operatives have to be adapted to their environments so that they may try to improve them. Even where workmen are in numbers, they are helpless, without leaders and without organization. Spread of education among them will alone enable them to understand their rights and to make efforts to improve their condition.

The lot of the labourers engagd in factories, mines, railways and on plantations may be improved by the beneficent action of far-seeing and sympathetic employers, as much as by combined pressure brought to bear upon them by the operatives. In agriculture and the other indigenous industries in which the bulk of the Indian labourers are engaged, combined action on the part of workmen is not to be expected and only the good sense of the employers must be trusted to ensure satisfactory conditions of work and decent wages. There is a large amount of casual labour employed in these industries, and its wages are determined by the number and the needs of the workmen. The employer will usually give his labourers just enough to enable them to keep body and soul together and they are often at his mercy. Such labour is lazy and careless and dear even for low wages.

236. Housing and Sanitation.—Workers in factories, in mines and on the plantations form a small part of

the total labour force of the country. The condition of factory workers has attracted greater attention because it is more conspicuous and it involves the evils of modern industrialism. But there is no reason to suppose that workmen engaged in other industries are better off, though there are in their position certain compensating circumstances present. Now that labour is being organized and is preparing to take the problem of improvement in its own hands, it may be expected that progress in the direction of higher wages, fewer hours of work, sanitation, housing &c., will be steadily kept in view and systematic efforts will be made to achieve it.

That the efficiency of Indian labour is low and that the Indian workman is content with a very low standard of comfort, is admitted on all hands. It is stated that "the Indian workman, speaking generally, takes advantage of the greater earning power given to him by increased wages to do less work, and shows no desire to earn more money by working more regularly or by improving his own efficiency."[1] The Industrial Commission made a careful inquiry into this aspect of the labour problem and was inclined to take the view that 'the remedies for this state of affairs are a rise in the standard of comfort and an improvement in public health'. Education, improved housing and a general policy of betterment, in which an organization for the care of public health must play a prominent part, are the means suggested to attain the desired end. Shorter hours of work, facilities for amusement, provision of cheap shops for the sale of articles of everyday consumption, co-operative societies, are some of the principal measures that must be taken to bring about a substantial improvement in the condition of factory labour.

The housing problem is one of the most urgent that must be tackled in this connection. Conditions in this respect vary from province to province. In cases where factories are situated at a distance from towns, decent housing accommodation can be conveniently provided.

1 Report of the Indian Industrial Commission, Chapter XVI.

But in places where factories are located in thickly populated areas and in places where cheap and sufficient land is not available, housing conditions are unsatisfactory. Government and local authorities must co-operate with employers in securing suitable sites for erecting factories and housing workmen. The duty of providing sanitary houses cannot be thrown entirely on the shoulders of employers, though the latter cannot escape their responsibility in the matter. Some enlightened employers have been alive to their duty and housing and other arrangements made in certain mills and factories are worthy of imitation elsewhere.

The position of Bombay city with reference to the location of mills and housing, is peculiar. A few of the 'chawls' occupied by factory and other workers, are the worst that can be imagined. The report of the Industrial Commission describes them thus :—"The rooms, especially those on the ground floor, are often pitch dark and possess very little in the way of windows; and even the small openin s which exist, are closed by the inhabitants in their desire to secure privacy and to avoid the imaginary evils of ventilation. The ground floors are usually damp owing to an insufficient plinth; the courtyards between the buildings are most undesirably narrow and, therefore, receive insufficient sun and air. They are also very dirty. Water arrangements are insufficient and latrine accommodation is bad, though the latter is being steadily improved. A most insanitary smell hangs round these buildings."

237. Other Needs.—As work in factories is strenuous and exhausting, it is necessary that special measures should be taken by the employers to relieve the physical and the mental pressure which long hours of labour entail upon the operatives. The State must enforce the provision of these essential conditions in the factories if employers require legal coercion. First, as regards hours of work, employers now appear to be willing to adopt a ten hours day. The contention that the Indian labourer is lazy, that he is not unwilling to work for

twelve or more hours a day, and that a shortening of the working day will inevitably lead to a reduction in output, can not be allowed much weight because the existing conditions, are, in any case, intolerable. In order to put in twelve hours' work in the factory, the operative has to leave home at 5 or 5-30 A. M. and he can return at 8-30 or 9 P. M. He has no time for recreation and leisure and life to him is not very pleasant. Relief is, therefore, imperatively necessary even if it causes some diminution of output and if a reduction of the working day does not increase the efficiency of labour.

The employment of women and children is a question that requires even greater attention. As the law stands, women cannot be made to work longer them 11 hours per day but here also a reduction to 9 hours seems to be called for ; and there are besides several questions of social and moral importance which arise with reference to the way in which women are treated and the special concessions that are granted to them. Children below the age of 9 cannot be employed in factories, and must not be made to work for more than 7 hours on any day. The International Conference at Washington very properly recommended that the minimum age for employment should be raised to 12. The minimum age for adults must likewise be raised from 14 to 16. There are complaints that the law is notoriously evaded in these matters in several factories, and that the inspectors are not able to cope with the evil. There was recently a suggestion made to the effect that unofficial and philanthropic agency should be allowed to co-operate with and supplement the work of factory inspectors; and though there are practical difficulties in putting this proposal into operation, it is undoubtedly worth a trial. In any event, a stricter and more frequent supervision of factories is badly needed and the number of inspectors must be increased.

238. Welfare Work.—It has come to be recognized as a duty of employers to make varied provision for the physical, mental and moral well-being of their operatives; their responsibility does not end with paying the

latter their fixed wage and perhaps accommodating them in sanitary houses. The Carnatik and Buckingham Mills in Madras, the Tata Steel Works at Jamshedpur and a few other factories have been following a very liberal and far sighted policy in providing houses, cheap grain shops, schools, recreation grounds, libraries and other amenities for the benefit of their work people. Philanthropic agencies have undertaken this very useful work in Bombay and Madras, the Social Service League taking the lead at the former place. These bodies of public-spirited people organize lectures and conduct night schools for the benefit of factory workers, outdoor games and trips are arranged for the children of the operatives and co-operative credit and other societies have been started for promoting thrift and relieving indebtedness.

Some employers in Bombay have shown active sympathy with this work and are giving financial help, enabling it to be carried on for the advantage of the operatives in their mills. The Indian Industrial Commission has emphasised the value of these activities of philanthropic agencies and urged the need of disinterested labours of private individuals and associations being bestowed upon the work. Such agencies, it finds, are sadly lacking, with one or two brilliant exceptions. The Commission feels that official organizations, as at present constituted, are ill-suited for work of this character and observes :—" Government and local bodies as well as employers, however, can and should assist such efforts, both financially and in other ways; but the direct participation of official agency in social welfare work must wait until the civic sense has become more fully developed, and we therefore think it out of place to make definite suggestions."[1]

It must be repeated that the particular attention that is being paid to the question of ameliorating the condition of factory labour does not warrant the inference that other workmen are too well off to require any thing being done for their benefit or that at least they are not worse

1. Report, page 192.

off than mill hands. The houses, the wages, the conditions of work &c. in the case of non-factory labour are in most cases, lamentable. Organization is difficult among them, and their cause also must be taken up by philanthropic associations. Every town and even every village has this problem to face, and the city slums and the 'paracheries' are a scandal. Filth, vice, disease, poverty and misery are rampant in these places. Improvement of general sanitation and of public health is a problem of supreme importance which confronts municipal and local bodies and until it is solved, there is little prospect of any substantial bettering of the condition of labour.

239. Government Action.—The serious labour unrest which prevailed in the different parts of the country and broke out, from time to time, into strikes in 1919, naturally raised the question if the circumstances did not call for an inquiry into the condition of factory workers and did not point to the necessity of some measures being taken to establish conciliation boards and a system of arbitration. A resolution was moved in the Supreme Legislative Council, urging the appointment of a commission to go into the whole problem of factory labour, strikes and so forth and to deal with the extraordinary labour situation which had arisen in the country. Speaking on behalf of Government, Sir Thomas Holland expressed sympathy with the object of the resolution and described what steps were being taken to carry out the recommendations of the Industrial Commission in that behalf.

The Bombay mill strike of January 1920, characterised as a 'lightning' strike, declared without any notice given to the employers, had roused a great deal of bitterness in the minds of employers, workmen and the public. The mill hands were obstinate in refusing to return to work until their demands about higher wages and other concessions were fully conceded and the employers would not make a move unless the workers first went back to the mills. A deadlock was thus created and the labour situation bore a most threatening aspect; and an agreement was reached only through the intervention of a concilia-

tion committee composed of public-spirited leading men, and especially of the Governor. A similar situation had to be faced in Ahmedabad at a later date. All this points to the urgent necessity of Government devising a machinery for dealing with the labour problems which have arisen in the country. The Factory Act must be amended and other measures must be taken on western lines because they are intended to meet labour conditions characteristic of western countries. It will not be possible, of course, to apply western methods wholesale to India as Indian labour is not yet as organized as that in other countries.

CHAPTER XVII.

Taxation.

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240. What is a Tax?—It now remains to consider the claims of the last sharer in the national dividend, viz. the State. The part taken by the State in wealth-creation is indirect and, in certain exceptional cases, also direct. The State is not a parasite which receives an income that it does not earn. The services it renders by providing for defence and the maintenance of order, the making and enforcing of laws, and for the promotion of education and public health, are of very high value and wealth-production would be difficult if not impossible, without them. It represents the community whose members contribute to its expenses and the State may also receive rents and profits. The methods of raising revenue have varied from time to time and country to country; and popular control over the expenditure of national revenue, depends upon political liberty and constitutional rights enjoyed by the people.

The right of the ruler to take a share of the income of the subject and to levy imposts of various kinds on different forms of wealth produced by the people, has always been recognized in India. A good ruler was ex-

pected to levy moderate taxes so that they might not press heavily upon his subjects; but their range was usually very wide. The ancient law-givers lay down what shares the king may take and the duty the people owe to him to pay the taxes. In pre-British times, cesses and fees, as well as direct and indirect taxes, were well-known; and they were all levied on a well-defined and regulated system. The science of finance is a recent growth and the principles of taxation have been steadily evolved Principles of equity, faculty or ability or benefit derived and equality of sacrifice, have been developed; and the statesman is expected to weigh carefully the social, economic and political effects of the taxes he imposes.

Some of the so-called taxes are merely fees or prices paid for specific services rendered by the State or other public powers. In reality there is no idea of a *quid pro quo*, or of a direct exchange of services involved in taxation, and their membership of society imposes upon people the duty of contributing towards the expenses of the State A tax has been defined as "a compulsory contribution of the wealth of a person or body of persons for services rendered by the public powers."[1] An attempt is, of course, made to make the individual's contribution proportional to his ability to pay, measured by his income, and to make the sacrifice equal. Taxation is also used as an indirect means to promote certain ends which apparently lie out of the province of the taxing authority, such as correcting the inequalities of wealth-distribution and the promotion of healthy consumption. The State normally determines each year how much it will require for its expenditure, and distributes the amount among various forms of taxation.

241. Indigenous Tax-System.—From time immemorial, rulers in India have regularly taken from their subjects contributions of wealth or services for the maintenance of themselves and their governments. The people were made to pay in a variety of ways; and while the payment of taxes was acknowledged as a duty in view of

1 Bastable: Public Finance.

the benefits derived from the functions performed by the government, onerous impositions were condemned as tyrannical. Moderation of incidence was a characteristic feature of a good system of taxation. Manu says :—"After due consideration the king shall always fix in his realm the duties and taxes in such a manner that both he himself and the man who does the work receive (their due) reward." His idea as to the method of tapping the people's wealth, is expressed thus :—"As the leech, the calf and the bee take their food little by little, even so must the king draw from his realm moderate annual taxes." The importance of moderate taxation is brought out in the following :—"Let him not cut up his own root (by levying no taxes), nor the root of other (men) by excessive greed, for by cutting up his own root (or theirs), he makes himself or them wretched."[1]

Taxes imposed upon different forms of wealth and different classes of people are distinguished and personal services are exacted from mechanics and artisans. A fiftieth part of the increments of cattle and gold and the eighth, sixth or twelfth part of crops is allowed by Manu. Heavier taxes are justified by the exceptional needs of the ruler, *e. g.* war. Proceeds of regular taxes were clearly distinguished from the income from royal lands, forests, and other property. Kautilya gives a formidable list of the sources of the king's revenue. This system was handed down to later periods of Indian history, and Hindu and Mahomedan rulers had a comprehensive system of taxation into whose net cultivators, traders, artisans, craftsmen, professional men were all caught; and excise, and customs and transit duties were a regular feature of the system.

The Moguls and the Marathas essentially followed the same fiscal practice and their assessments and collections were animated by the two-fold principle that the Government must draw from the people a sufficient revenue through different sources and that fiscal arrangements must be devised in such a way that they might not prove oppressive to the tax-payers. The right

1 Manu, VII 131, 132, 133 ; VIII 130.

of the state to levy taxes upon all classes of people except a few favoured sections of the community, was rigorously enforced but exemptions and deductions were liberally allowed in cases where the incidence was calculated to prove oppressive. Abul Fazl makes the following observation regarding the connection between national prospérity and the fiscal demands of the state :—" But the success of these operations (corporeal or intellectual labour on the part of different ranks of people put forth for recruiting animal strength), which tend to the ease and comfort of every condition of life depends upon the justice of monarchs, and the integrity and ability of their ministers, " for every country has something peculiar to itself .....So that it behoveth the officers of government, in their respective districts, to attend to every case of those circumstances, that the demands of the state may be fixed accordingly."

242. Present System of Taxation.—The Government of the East India Company succeeded to this indigenous system of taxation above described ; but it took the British Government more than three generations to evolve order out of the chaos which prevailed in the finances of the country and to correct the abuses which had found their way into the system. As the fiscal arrangements stand at present, the revenue of the Indian Government is made up of different elements : (1) income from its own property, lands, forests, railways leased out to companies, royalties etc. (2) income from its commercial undertakings like railways directly managed by the State, Canals, the Post Office, monopolies of sale, opium &c. and (3) taxation proper, viz. contribution levied upon the people (i) directly, like the land tax and the income tax and (ii) indirectly, like taxes upon commodities *e. g.* customs and excise duties and upon actions like stamp and registration duties. In India, there have been, for years, two taxing authorities, the Government of India and the local bodies and now the power of taxation has been conferred upon the Provincial Governments also. The revenues of the latter have been comparatively small and the bulk of the taxation has been

imposed by the Government of India. The Provincial Governments have recently acquired the power of independent taxation, and certain sources of revenue have been definitety assigned to them so as to be under their complete control.

(1) One striking feature of the Indian tax system is the comparatively large proportion the land tax has borne to the total State revenue. At one time it was fully one-half of the total; only twenty years ago it was 31 per cent. Now it is about 17 per cent. With the growth of industries and trade and the increase in the manufacturing and commercial wealth of the people, this ratio has steadily declined, and the contribution of the other taxes to the national exchequer has become very much larger than it was a few years ago. In a previous Chapter we have dealt at some length with the subject of land and shown that the Indian land revenue is a property tax or a tax on agricultural incomes, that land in India is not, as is often times supposed, the property of the State, and that, therefore, income derived from it cannot be regarded as rent taken from tenants. India is said to be one of the most lightly taxed countries in the world, and this statement is mainly based on the assumption that land revenue is a rent. Sir John Strachey,[1] for instance, says:—"The State in India has, at all times, reserved to itself resources which, in other countries, belong to individuals and which render heavy taxation unnecessary. There is certainly no country in the world possessing a civilized Government in which the public burdens are so light." And further:—"In England taxation supplies five-sixths and in India not much more than one-fourth of the public income."

It must not be forgotten that the Indian system of taxation is the system of a poor and mainly agricultural

1 India, its Administration and Progress.

country and that it is not subject to the control of the Indian people. The land tax had always been the mainstay of all Governments in the world before the development of an extensive and complicated industrial organization. Formerly land was the only valuable property that could be taxed, but now other sources of revenue are much more important and productive. The economic evolution which is taking place in India is bound to move in the same direction, and in the future the proceeds of the land tax will bear a smaller ratio to the total revenue of Government than they do at present.

(2) With foreign trade and manufactures expanding every year, with the extension of the means of communication, and with the growth of banking, the present income tax, customs and excise as also new taxes like inheritance duties, are sure to assume greater importance. Land revenue is a kind of income or property tax; but other incomes and properties have so far escaped their reasonable burden, though license duties and trade taxes have been tried and a low general income tax has been in existence for over a generation. The Indian tax-system requires readjustment and radical improvement. And the comfort Sir John Strachey administers is no comfort at all, because his remark only shows that India is a poor country and that its tax-system is unsuited to its needs and changing conditions.

(3) Another noteworthy feature is that our customs revenue has been, comparatively speaking, small, and the free-trade conscience of our Government and the pressure of British manufacturers and merchants are mainly responsible for this state of things. (4) Financial centralization and the complete dependence of Provincial Governments on the whim and charity of the central

Government in the matter of taxation and expenditure constituted another drawback of the Indian system of finance. This defect has now been removed by the almost complete separation that has been effected between Imperial and Provincial finance. (5) A further weakness of the system lies in the poverty of the local bodies whose sources of income are unproductive and inelastic and which are, therefore, not able to undertake those works of public utility which characterise the administration of local authorities in western countries.

(6) Lastly, the power of the purse is not in the hands of the people and there is no popular control over taxation and expenditure. Government, therefore, cannot and does not levy taxes which it ought, and does not spend those that are levied in the manner the tax-payers would like them to be spent. The constitutional reforms inaugurated by the passing of the Government of India Act, 1919, confer this power of taxation, and control over expenditure in the Provinces with reference to the 'transferred' departments, to popularly elected legislatures and the Government of India remains essentially unresponsible in matters financial except for the greater amount of influence the Supreme Legislature can exercise through the new opportunities which are provided to it. We shall bring out these points in the course of the present Chapter and shall attempt to show how financial reform of a comprehensive character is an urgent need in India in the interests of the welfare of the people.

243. Financial Statistics.—Important changes were effected in the Indian system of taxation as a result of the stress of war conditions; and the expenditure and the revenue of the country have expanded by long strides. We give below a comparative statement of the reve-

nue and expenditure charged to revenue, of the Government of India, in India and in England, for the last pre-war year and the current year.

Revenue.

	1913–14	1920–21 (budget).
Principal Heads :—	£	£
Land Revenue ...	21,391,575	23,711,200
Opium	1,614,878	2,942,000
Salt	3,445,305	4,488,400
Stamps	5,318,293	7,507,500
Excise	8,894,300	13,540,600
Customs	7,558,220	17,009,700
Other Heads	5,496,175[1]	17,000,200[2]
Total Principal Heads ...	53,728,746	85,699,600
Interest	1,352,119	3,715,600
Posts and Telegraphs ...	3,598,519	6,184,200
Mint	339,841	679,500
Receipts by Civil Depts...	1,408,286	2,086,200
Miscellaneous ...	772,579	6,276,800
Railways : Net Receipts...	17,625,634	21,774,700
Irrigation	4,713,159	5,945,200
Other Public Works ...	298,640	371,300
Military Receipts ...	1,369,652	1,519,500
Total Revenue ...	85,207,175	134,252,600

1. Includes £ 1,950,250 on account of Income-tax.
2. Includes £ 11,330,400 on account of Income-tax.

Expenditure.

	1913–14	*1920–21* (budget).
	£	£
Direct Demands on Revenue.	9,274,597	13,410,100
Interest	1,515,653	8,192,500
Posts and Telegraphs ...	3,272,984	6,073,500
Mint	132,630	254.800
Salaries and Expenses of Civil Departments ...	17,934,199	28,250,200
Miscellaneous Civil Charges.	5,403,804	8,634,700
Famine Relief and Insurance	1,000,000	1,000,000
Railways: Interest and Miscellaneous Charges ...	12,836,107	15,284,200
Irrigation	3,531,867	4,381,400
Other Public Works ...	7,010,038	9,074,100
Military Services ...	21,265,765	41,519,500[1]
Total Expenditure, Imperial and Provincial ...	83,177,638	136,075,000
Add— Provincial Surpluses ...	325,692	...
Deduct— Provincial Deficits ...	*608,578*	*3,827,000*
Total Expenditure Charged to Revenue ..	82,894,752	132,248,000
Surplus	...	2,004,600
Total ...	85,207,175	134,252,600

1. Includes £ 1,450,000 for further assistance from Indian revenue towards the cost of the military forces raised in India.

The following table will show the growth of revenue and expenditure during the past forty five years :—

Year.	Gross Revenue	Expenditure.	Surplus (+) or Deficit (—)
	£.	£.	£.
1875-76	51,019,140	49,013,871	+1,668,945
1880-81	50,228,038	52,648,968	—2,420,930
1885-86	48,105,356	49,973,174	—1,867,818
1890-91	54,444,668	51,985,887	+2,458,781
1895-96	59,395,326	58,372,660	+1,022,666
1900-01	66,806,579	65,136,375	+1,670,204
1905-06	70,846,565	68,754,337	+2,092,228
1910-11	80,682,473	76,746,186	+3,936,287
1915-16	84,413,537	85,602,198	—1,188,661
1920-21 (Budget)	134,252,600	132,248,000	+2,004,600

244. Burden of Taxation.—Looking to the needs of reform involving additional expenditure, one will easily realize that the people cannot grudge their Government larger contributions in the form of taxes. But two conditions must here be satisfied : (1) that the existing scale of expenditure should be so scrutinised as to result in all possible economy ; and (2) that expenditure and taxation should be subject to the rigid control of the representatives of the tax-payers. Neither condition is satisfied in India to-day, and the statement that the people of India are most lightly taxed, is unwarranted. There is no absolute standard by which to judge of the lightness or heaviness of the burden of taxation, and the relation between it and the per capita income of the population, must be taken into consider-

ation in judging in this matter. That the administration in India is more costly than it need be. that the country is one of the poorest on the face of the earth and that the people have little voice in levying and spending the taxes, are facts acknowledged by all.

As an effect of the war, money has lost its purchasing power very considerably all the world over, and governments in the belligerent countries have had to raise vast sums by way of taxation out of the wealth of the population, decreased by destruction. A comparison of the incidence of taxation in India with that in other countries is not, therefore, likely to be particularly helpful. That the amount of taxation per head of the population in this country is comparatively smaller cannot be denied. But the per capita incidence of taxation must be taken along with the per capita income of the Indian population. and it may be found that the sacrifice borne by the Indian tax-payers is not much lighter than that made by the citizens of any other country. It is not the absolute amount but the relative burden that is the standard in this matter.

Those who seek to make out that India is the most lightly taxed country in the world because it receives the blessing of efficient bureaucratic administration for a cheap price, attempt to prove too much. To speak of the lightness of the incidence of Indian taxation with admiration or satisfaction, is like a wealthy man's congratulations to his poor neighbour on the latter's comparatively insignificant amount of expenditure. We do not complain so much of heavy taxation in India; the burden of taxation must grow with the growing needs of the country. We find fault mainly with the methods of expenditure, the costliness of the administration and the inequality of the present incidence of taxation. In the future, proportionately more revenue must come out of the pockets of the wealthy than now and the expenditure of the State must be economised and judiciously laid out. The haste with which Government has raised the scales of the salaries of highly paid officials and has made many appointments of Europeans on the eve of the inauguration of constitutional reforms calculated

to confer greater political power upon Indians, is not reassuring and the new councils will be handicapped by the huge commitments of Government

245. The Land Tax.—Landlords and cultivators must certainly contribute, according to their ability, to the revenue of the State and unearned increment must be more heavily taxed; but not to count the revenue they pay, as a tax, is hardly correct or fair. Enhancement of the land tax has been made from time to time, and on the the theory of State landlordism, it did not require legislative sanction. Under the recent Reform Act, the revision of land revenue settlements is brought under the control of provincial legislatures. The land tax is erroneously regarded as a rent but is a property tax, and is often calculated to act as a tax upon agricultural income. As such, it must be regulated by the principles which apply to income and other taxes. If the land tax is avowedly a share of the net produce of the land, that is, of income there is no reason why exemption should not be allowed to a minimum as in the case of the income tax. If a salaried man or a shop-keeper with an income of say Rs. 600 a year, earns exemption from the payment of the income tax, the small cultivator may claim similar concession in the matter of the land tax.

In all countries a land tax is a source of revenue to Governments. In former times, a general property tax was levied but it tended to become a tax on land and houses; and other forms of property, e. g. personalty, escaped taxation altogether. These forms of property are now, almost everywhere, brought within the net of taxation. It is, however, produce or income rather than property, that is taxed. Taxes must really be levied upon persons and corporations and not on property, and this is the accepted principle underlying the income taxes of all countries. The State in India has moved in its old grooves all these years and has not modified its policy of taxation so as to suit changing conditions. We do not wish to suggest that the land tax should be given up; we urge that there should

be equality and equity in its incidence and that it should be assessed according to the ability of the tax-payer. A poll tax or a property tax, is a crude method of raising State revenue. To-day the land tax is assessed, in Bombay and Madras, upon each acre according to fertility and other conditions, irrespectively of the ability of the owner of the land to pay. Because a certain piece of land is presumed to be able to yield a certain amount of produce, therefore, it must pay from a sixth to a tenth of that produce to the State.

The result of this is that the land tax may not be actually paid out of income from land, but out of other earnings viz wages. Why should the agricultural labourer,—because the cultivator is often nothing more,—be made to pay an income tax when craftsmen, artisans, petty shopkeepers and money-lenders, better circumstanced than he, are exempted from it? Simply because land is supposed to be the property of the State which represents the nation? Most of the holdings in rayatwari provinces are notoriously uneconomic and the cultivator has to supplement his scanty agricultural income by work elsewhere.[1] And yet he must pay the land tax. The indebtedness of rayats is heavy and the land tax may often have to be paid out of borrowings and not out of agricultural profits actually realised. While the money-lender may not pay an income tax, the cultivator who borrows from him has invariably to pay it; and the land tax turns out to be a tax not upon ability but on liability. This is a serious defect of a general property tax and is present in the Indian land tax, at least in the case of poor rayats. The tax has, besides, been levied and raised by mere executive action and it has thus offended against most of the important accepted principles of taxation. Land is an object better suited to local than national taxation and may be beneficially handed over to local authori-

1 See Dr. Mann's Life and Labour in a Deccan Village. The number of landholders paying Rs. 1 to 5 as assessment in a village is very large and the average extent of a holding is between 1 and 2 acres.

ties. Sufficient funds must, of course, be raised by taxation or otherwise to enable the State to perform its duties to the people. India is a poor country with agriculture as its predominant industry. The number of rich people or people who stand much within the margin of subsistence, is very small ; and, therefore, a direct tex like the income tax or a succession duty is not likely to be very productive. This is the reason why the land tax has occupied such an important place in the tax system of this country. It has also the advantage of being an ancient tax which the people have been paying from time immemorial. A Government, situated as the British Government in India is, has, for this reason, tenaciously clung to it and done its utmost to improve this source of revenue.

246. Permanent Settlement.—The permanent settlement of the land tax in Bengal, has been the subject of prolonged controversy. Objection has been taken to it on the ground that it has entailed on the State considerable loss of revenue. While the land tax in the other Provinces has steadily increased and the State has shared in the prosperity of the rayats, it is urged, the Jamindars in Bengal whose estates have steadily yielded them a higher rent, have their tax permanently fixed and have not made tneir proper contribution towards the growing expenses of the State. This is, in the opinion of the critics of the permanent settlement, grave injustice to other Provinces whose lands have to bear an increasing burden of taxation. The rent received by the Bengal Jamindars from their tenants, has increased fourfold, to more than Rs. 16 crores but the amount of the land tax they pay to Government remains what it was in 1793 viz. a little more than Rs. 3 crores. It is, therefore, suggested that the landlords "must either be bought out altogether, or such

compensation as they may be entitled to be offered to them before any additional contribution can be demanded."[1]

The Jamindars are naturally very tenacious of their rights and resent, as an unwarranted invasion of them, the mere suggestion of a further taxation of land in Bengal. Apart from all political and social considerations, the argument that 'many of the present holders are *bona fide* purchasers for value given; that they bought on the faith of the settlement being what it professed to be, a settlement in perpetuity; that any obligations which it is sought to throw upon them, having been allowed to lie dormant and inoperative, must be regarded as non-existent,' is too weighty to be lightly brushed aside, however desirable it may be that unearned increment should be taxed and the Bengal Jamindars, like other people, should be made to contribute their fair share towards the expenses of the State. And it is not easy for the State to devise a workable scheme for buying up or compensating the landlords.

If we take into account the circumstances under which the Jamindars were confirmed or acknowledged in their position of proprietors who were to retain for their trouble only one-tenth of the rent collected by them from the cultivators and to pay nine-tenth to the Government, viz. the state of utter confusion and waste into which Bengal had fallen, the total failure of all previous efforts to bring order out of this chaos, the great difficulty the Jamindars

1 "If, therefore, the finances of the country are to be maintained in a state of solvency, either we must impose heavier burdens on the people in new and unfamiliar shapes, raise the cost of living to the poor, exact the highest contribution which can be levied from the other Provinces with each revision of their land assessment—in fine cripple the country's resources, arrest its prosperity and disturb its peace—either we must do this or Bengal must pay her fair share of revenue along with the other interests and other Provinces, constituting the Empire. As a measure of justice as much as of necessity, the Bengal settlement must be remodelled, and the fact that the conditions—the purposes or intentions—with which or upon which the settlement was made, have not been fulfilled adds increased force to the demand."—Hector: Indian Fiscal Administration.

experienced in collecting and regularly and punctually paying the Jama into the public treasury, the sale of several Jamindaries by auction for default, the infinite mutations which have taken place in the estates, the frequency with which they have changed hands, the measures which have been taken to strengthen the position of the tenants,—if all these things are carefully considered, the case of the Bengal Jamindars will be pronounced as strong. They cannot, however, reasonably claim exemption from new or additional taxes which must press with uniform weight upon all classes and with greater rigour upon the wealthy.

Only two years ago, the Bengal Jamindars succeeded in compelling the Government of India to drop their proposal, not indeed to assess the income from land to the income-tax but to take that income into calculation in assessing the non-agricultural income at a higher rate. The opposition to the proposal was not reasonable and the Jamindars can not long resist the encroachment of the tax-gatherer upon their preserve of agricultural income. The Bengal Jamindars were subjected to the first regular income-tax imposed in 1860 as every landholder in India with an income of Rs. 600 and more, had to pay that tax besides the ordinary land revenue. The permanent settlement cannot be pleaded as a bar against any new general tax that may be imposed upon the incomes of all classes of people. The financial position of Bengal under the Reforms, will require readjustment in this regard and the Zamindars must pay an income tax as landlords have to do in Great Britain.

247. Non-tax Revenue.—The land tax must be removed from the category of sources of what is called non-tax revenue, the latter consisting mainly of Forests, Opium and Tributes, as also commercial undertakings like Railways, Irrigation works, Post Office and Telegraphs &c. There are, besides, several minor items of income, which are departmental receipts and are in the nature of prices and fees for services directly rendered to the public. They are included in gross but excluded from net revenue.

Opium revenue was, at one time, considerable and for years, went on steadily increasing as the result of a growing foreign demand but owing to an agreement with China, it has steadily declined and will, in time, almost vanish altogether. This is a heavy sacrifice of income, and is likely to be regarded as quixotic, but it is calculated, at any rate, to yield satisfaction that India has helped a neighbouring nation to put down a degrading vice so rampant in China though excise revenue has gone on merrily increasing in this country!

Forests form a valuable State property of immense possibilities and income from them has steadily increased. It will continue to expand as forest products come to be utilised more and more for industrial purposes. The principle that such properties as forests should always be national, is already in operation in India and the nation is not likely to lose control over that important asset. The Post Office and Telegraph render great social services and their management by the State has proved exceptionally useful to the public. The payments made by the public to the Post Office are prices for services and stamp duties are taxes on acts.

248. Railways.—Indian railways have now become remunerative and constitute a valuable asset of the country. For years, they were not paying concerns to the State and have involved a total loss of about Rs. 50 crores. Since 1904, they have, however, been contributing a fairly large and increasing quota to the national revenue. The total mileage of railways open in 1915-16 was 36,633 and the total capital outlay on all lines. was 537·07 crores. The total gross earnings were 64.67 crores and the working expenses, 32.92 crores. About 72 per cent. of the mileage belongs to the State. the remaining to companies and

Native States. The financial results of the working of the State railways are given below :--

	1915-16	1919-20 (Budget)
	£	£
Capital at charge at end of year...	364,851,000	385,677,000
Net working profit, excluding interest charges ..	17,797,000	21,2[illegible]2,000
Percentage of net working profit to capital outlay ...	4.88	5.51
Net working profit after meeting interest charges ...	4,075,000	6,904,000
Percentage to capital outlay of net profit after meeting interest charges ...	1.12	1.7[illegible]

The importance of railways for the economic development of the country, is undoubted. But railways having long been a burden upon the State treasury, which could ill bear it, a rapid extension at the cost of the tax-payer, has been most unpopular. We have also shown in the Chapter on the Economic Revolution what effect railwas have produced on the indigenous industries of India. Certain commercial interests press for a large annual railway programme, and a standard of Rs. 18 crores a year was laid down only a few years ago. The necessary extensions and improvements of railways must, of course, be effected, but the liabilities must not be increased in such a way that they would lead to a deterioration of the financial position. The Finance Member in 1913 had to administer a warning in this connection to his critics who wanted to hasten the pace. He said that the railways must never be allowed to become, even temporarily, a net burden on the general tax-payer. "As matters stand, we have in our railways a splendid asset Let us safeguard that asset. Any admission of doubtful schemes or failure to count in each case the full cost, any disregard of financial considerations, will surely lead to deterioration of a most serious character."[1]

1 Sir Guy Fleetwood Wilson introducing the Financial Statement for 1913-1914.

In some countries like Prussia, the railways, as in India, are State property and they are a large source of revenue. The Indian tax-payer having paid for the railways and suffered losses, it is but due to him that they should be made a permanent source on which reliance may be placed for yielding a substantial amount of revenue. The prosperity of the railways depends upon the character of the monsoon, and their profits have no doubt introduced an element of uncertainty in Indian finance.[1] Indian finance used to be called a "gamble in rain"; now it is characterised as a "gamble in railways." But if they are properly looked after, as Sir G. F. Wilson suggested, they must prove a splendid financial asset.

249. Railway Policy.—The bulk of the Indian railways have become State property but only a few of them are directly managed by the State, the others being under the management of companies who give the State a fixed share of their profits. Of the 25,000 miles of railways owned by the State, only 8,000 are managed by the State directly, the remaining 17,000 being managed by companies under contracts entered into by the State with them. Whether all the State railways may not be profitably managed by the State, has therefore become a subject of keen controversy. This important question was raised in the Supreme Legislative Council by Sir Ibrahim Rahimtoolla in 1915, who moved that on the expiration of the contract of management with the East Indian Railway Company in 1919, the management of that railway should be assumed by the State. A similar resolution was moved by the Hon'ble Mr. Sarma early in 1918, and as before, opposite views with regard to the merits of State management of railways, were maintained. The views of the two opposite sides may be found summed up in a memorandum on the subject prepared and published by the Railway Board in 1916. From the point of view of economy and efficient management, it is believed, company

1 See D. E. Wacha's "Railway Finance" and "Recent Indian Finance."

management is more desirable and a vast railway undertaking in the hands of the State, is deprecated.[1] In England, America and France, railways are private property but in Prussia and other countries they are the property of the State, being also managed by the State. We hold that from the financial as well as the economic and the social point of view, State management of Indian railways is, on the whole, preferable.

We need not here enter into the history of railway construction in India nor into the details of the controversy regarding the system of their management. State policy in this matter has changed from time to time. Railway construction was carried out for years since the initiation of the enterprise about 1850, through joint stock companies started in England, under contract with the State. The companies were guaranteed interest at 5 per cent. on their capital outlay and in addition half the surplus profits. They were bound to sell their railways to the State after 25 years. This guarantee system imposed a heavy burden on the revenues of the country and was discontinued in 1869.

From 1870 Government began to borrow for railway development by direct State agency. But it was found that under this system progress was extremely slow. The State had, therefore, in 1880, to fall back upon the old guarantee system only modified so as to ensure easier terms for Government. Vigorous efforts have since then been made to push on railway construction and to attract private capital for the promotion of feeder lines by means of tempting terms.

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1 This view will be found vigorously maintained in a "Note on State *vs.* Company Management of Railways" written by Mr. S. C. Ghose. The case for State management may be summed up in the following two sentences taken from Sir Ibrahim's speech in the Viceroy's Council:—"No one disputes the fact that the railways should be worked on a commercial basis; what we object to is that they should be worked purely on a commercial basis irrespective of every other consideration. All we ask is that in working on a commercial basis care should be had to the economic and industrial interests of this country."

During the War, capital expenditure on railways had to be reduced and they had to be worked at a high pressure. The railway capital expenditure on State-owned lines, open lines and lines under construction amounted only to £ 1,978,700 in 1916-17, £ 2,529,300 in 1917-18 and £ 4,154,500 in 1918-19. In the budget for 1919-20, provision was made for £ 17.7 millions which, owing to failure of English supplies, could not be fully utilized and for the year 1920-21, it was proposed to raise the provision to £ 18 million for home and £ 4½ crores for Indian expenditure. The major portion of this sum was to be spent on the improvement of existing lines to make up for the wear and tear of the war period and to enable the railways to cope with the growing traffic. The whole question of railway management and finance must now be threshed out again. The fundamental principles that have to be followed are that the railways which are and which will soon be State property, must be under State management and, therefore, under the indirect control of the people ; that their remunerative character must be scrupulously maintained and that they should be worked in such a way that they will encourage national industries and minister to the convenience of the public. Supposing that railways are efficiently managed by companies it must be borne in mind that they take away annually about a crore of rupees as profits, their boards of management are in London and are not under the control of public opinion in India and that they are more directly interested in making profit than in looking to the convenience and advantage of the Indian people.

The view is held by some that profits from railways, which by their uncertainty, disturb the even course of finance and are not the proceeds of taxation, should not form part of the ordinary current revenue of the country, but should be set apart for being laid out on the expansion and improvement of railways, so that the annual borrowings of capital will be substantially reduced. We are, however, inclined to hold that railway profits which are earned not only after meeting all charges on account

of interest on the total amount of capital borrowed for railways but after providing for annuity and sinking fund charges as well, are a legitimate source of revenue to the State and that the tax-payers should not, therefore, be deprived of it.

It must not be forgotten that railways have now become remunerative only after having taken year after year a crore of rupees a year on an average for fifty years and it is but just that the profits should go to relieve the burden of the tax-payer so far as this can be done without detriment to the position of the railways, which are, after all, a commercial undertaking. We entirely agree with Sir William Meyer in the views he expressed on the subject in reply to Sir Dinsha Wacha who would have the railway surpluses earmarked for capital expenditure on the railway programme. Sir William said:—"On the other hand, if you take Sir Dinshaw Wacha's metaphor and the people of India as shareholders in railways, you have got the fact that the shareholder went without any dividends for a long time, because, as Sir Dinshaw has aptly reminded the Council, it was not until after many years that the railways began to pay, and the shareholders may quite reasonably claim that they should have some reward for their past abstinence. Also, as shareholders might claim in an ordinary business, they might say "It is all very well for you to put part of the profit into improving the business, but you must apply part of it in giving us dividends."[1]

250. Irrigation Works.—One of the most remunerative and, from the economic point of view, important commercial undertakings of the State, consists of irrigational canals constructed and maintained by Government. Wells and often smaller tanks are the property of private individuals, but the larger tanks and the big canals are State property. In the interests of the country as a whole, it is necessary that canals, so useful to the agricultural industry, and therefore to the well-being of the nation, should be the property of the community.

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1 Budget Debate, 8th March, 1918.

"Financially considered, irrigation works are classed as 'major' and 'minor' the former being subdivided into (1) Productive and (2) Protective works. The most important irrigation works in India are those classed as 'Productive works' or works the capital cost of which has been wholly or mainly provided from loan funds in the expectation that they will prove directly remunerative and that the net revenue derived from them will fully cover all charges for interest within a reasonable time after their completion."

'Protective works' are not expected to be directly remunerative. For only a few 'minor works' are capital and revenue accounts kept. All expenditure connected with the construction and maintenance of minor works is met from ordinary revenue. It is a long-standing complaint that the State has not paid as much attention to irrigation works as to the railways though the extention of the former is equally vitally necessary from the point of view of agricultural presperity. During the past fifteen years, however, the pace has been accelerated and many important works have been executed and are in contemplation, irrigating thousands of additional acres.[1]

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1 "The total length of main and branch canals and distributories of State irrigation Works of all classes in operation during the year 1918-19 was 66,120 miles which was 644 miles greater than the mileage in operation in 1917-18. It is expected that an additional length of 425 miles will have come into operation before the close of the year 1919-20. The total culturable area commanded by these canals amounted to nearly 52 million acres of which nearly 25 million acres were irrigated in 1918-19 and it is anticipated that during the current year the canal-irrigated area will aggregate 26¾ million acres."—Finance Member's speech introducing the Financial Statement for 1920-21.

The following table shows the financial position of irrigation works :—

Productive Works	1916–17	1919–20 Budget
Capital outlay to end of each year	£ 37,120,000	38,237,000
Total receipts including land revenue due to irrigation ...	4,733,000	5,040,000
Total expenses, including interest on debt	2,488,000	2,633,000
Net profit	2,245,000	2,407,000
Percentage of net profit to capital outlay	6·5	6·29
Protective Works.		
Capital outlay to end of each year	6,166000	7,151,000
Net loss	171,000	210,000
Minor Works.		
Net loss	464,000	700,000

251. Customs.—In other countries a large amount of revenue is raised from customs. In India, the tariff has all along been on a free trade basis, and a small 5 per cent. *ad valorem* import duty, varied according to the nature of articles, was imposed, the duty on cotton piece goods being only 3½ per cent, counterbalanced by a corresponding excise duty. It was believed that in a poor country like India, with unlimited undeveloped resources and with abundant raw materials, freedom of exchange with foreign countries was a primary need. Sir John Strachey observed[1] :—"Here then is a country which, both from its poverty, the primitive and monotonous condition of its industrial life and the peculiar character of its political condition, requires from its Government before all things the most economical treatment of its resources and, therefore, the greatest possible freedom in its foreign exchanges."

1 Financial Statement, 1878.

Curiously enough, exactly the opposite theory was propounded by a successor of Sir John, Sir G. F. Wilson, who pointed out in 1911 that in such a country as India we must rely, for many years to come, largely upon import duties as an important source of revenue. Custom duties constitute indirect taxation of a convenient kind which falls upon almost all classes of people, particularly the higher and middle classes, and has the advantage of being substantially productive.

We have treated the subject of tariffs at some length already[1] and need not go over the ground again. It is sufficient to observe that India must depend more in the future on the indirect source of revenue provided by customs duties, import and export, if the country is to make rapid progress. The necessity of meeting the situation created by the War, forced the hands of Government, and in 1916, new import and export duties had to be imposed and the old ones increased.[2] Sugar, jute and cotton piece goods were the chief articles selected for an increase of duty and it was an eminently wise selection. In 1916-17, the changes in the tariff were calculated to yield an additional revenue of £ 2,150,000. One million more was obtained by the enhancement of the import duty on

1 See page 236 above.

2 "The general tariff rate on imported articles which stood at 5 per cent. *ad valorem* since its imposition in 1894, was raised to 7½ per cent. with effect from March 1916. In addition to articles grouped under the 7½ per cent. *ad valorem* rate are those free of duty, liable to duty at special rates, and at 2½ per cent. Gold, living animals, raw cotton, wool, cotton machinery &c, are admitted free, special duties are levied on sugar at 10 per cent., on silver bullion and coin at 4 annas per oz; on silver manufactures at 10 per cent; coal 8 annas a ton; arms 20 per cent cigars and cigarettes 50 per cent.;......Iron and steel, railway materials &c, are charged at 2½ per cent. *ad valorem*. The duty on cotton goods is now 7½ per cent. *ad valorem*. The export duty on raw and manufactured jute stands at Rs. 4½ for raw jute per bale of 400 lbs, with a special rate of Rs. 1½ per bale on cuttings and at Rs. 20 per ton for sacking goods and Rs. 32 per ton on hessiens. The export duty on tea is Rs. 1½ per 100 lbs."—See Review of the Trade of India for 1916-17.

cotton goods from $3\frac{1}{2}$ to $7\frac{1}{2}$ per cent. in 1917-18. The rates of the jute duty were doubled and were expected to produce £ 500,000 and a surcharge, yielding the same amount, was imposed on railway goods traffic. Customs yielded £ 5,873,886, in 1915-16; in 1918-19, they produced a revenue of £ 12,120.641 and in the budget for 1920-21, the income was taken at £ 17 million. The obstinate opposition of the representatives of Lancashire in Parliament to an increase in import duties on cotton piece goods from $3\frac{1}{2}$ to $7\frac{1}{2}$ per cent., unaccompanied by a corresponding increase in the excise duty, the Secretary of State's defence of the policy of Government and the attitude of the Liberal aud Conservative parties in the matter, proved eminently instructive.

In the absence of suitable direct sources of revenue customs duties have to be levied on a considerable scale In imposing these duties, care has to be taken that they will not press hard upon the consumer and give an undue advantage to particular interests. Import duties, it is said, make articles dear to the consumer; but if he is to be taxed, as he has to be, it is better to make him pay in this indirect manner. Lancashire and other free traders sympathise with the Indian consumer; but it is only the consumer of fine English fabrics and other foreign articles that will benefit by a policy of free imports. If other taxes are levied or increased, the ordinary consumer will be hit much harder and even his food will become dearer. Poorer classes in India are content with country-made goods and they will not be affected by custom duties as they will certainly be if salt and land, for instance, are more heavily taxed. Promotion of indigenous industries, is comparatively a secondary consideration when we are dealing with finance, but it is one which cannot be altogether ignored. As Mr. Austen Chamberlain, the then Secretary of State for India, pointed out to Lancashire manufactures when they protested against the enhancement of the import duty on cotton piece goods, they want a free market in India as a protective measure and similar protection may be claimed by other interests. Prefer

ential duties are advocated on the above ground by British tariff reformers and it is urged that the Indian tariff must be framed on the same principle. A duty of 15 per cent. recently levied on the exports of hides and skins with a rebate of 10 per cent. in the case of Empire purchasers, quite a protective measure, was likewise calculated to mark the acceptance by India of the principle of Imperial preference introduced into the British budget by the Chancellor of the Exchequer, Mr. A. Chamberlain.

252. Excise and Salt.—Another indirect tax is the excise and this revenue is derived from the manufacture and sale of intoxicating liquors, opium and hemp drugs. There has been an alarming increase in this revenue during recent years. This growth is naturally regarded with grave anxiety as the habit of drink is one of the deadliest of evils from which society may suffer. It is, however, stated that 'the considerable growth of the excise revenue in recent years is due mainly to higher rates of duty and stricter excise control, and does not indicate a corresponding increase in consumption, although some increase has occurred through the expansion of population and the greater prosperity of certain classes.' It is unfortunate that the prosperity of the people should be associated with the growing consumption of liquor. Excise duties are imposed upon intoxicating liquors and drugs for controlling their consumption as well as for raising a revenue. Licenses to manufacture and sell are sold by auction or fees are levied and revenue from this source has fast increased, being now more than As. 8 per head of the population.

An interesting discussion took place on this question recently in the Viceroy's Council when Mr. Sarma moved a resolution asking Government to lay down a definite policy for discouraging the consumption of liquors, but the proposal was not accepted. Revenue considerations must certainly be subordinated to the promotion of the physical and moral well-being of the people. When the U. S. A. recently resolved to go 'dry' and other countries

made up their minds to follow suit, hope was roused in Indian reformers who thought that the prohibition movement could be successfully carried on in this country. But the needs of social reform and the requirements of the exchequer are not easy to reconcile. The 'responsible' portion of the Governments in Provinces will now control exeise revenue which cannot be dispensed with. And the effective promotion of temperance with a steady approach towards total prohibition, appears to be the only feasible course.

The salt duty is another indirect tax which falls upon and is felt mainly by the poorer classes. It has ever been a favourite source of revenue with Government. It is one of the oldest taxes and the duty is levied on all salt imported into and manufactured in India. It is the only tax, it is said, which reaches the masses and is a minute contribution made by them to the public treasury. In 1882 the rate of the duty was made uniform throughout the country at Rs. 2 per maund and was raised, six years later, to $2\frac{1}{2}$ rupees. Salt is a necessary of life in India, and a duty on such an article ought to be light if it cannot be dispensed with altogether. Only in cases of extreme necessity should the article be subjected to a duty. Since 1903, on the persistent exhortation of the late Mr. Gokhale, the tax has been steadily reduced and it stood at Re. 1 per maund; but it was recently increased on account of the pressure of war conditions. In 1916, the duty was raised from Re. 1 to Re. $1\frac{1}{4}$ per maund and the increased rate was calculated to yield about £ 500,000 additional revenue.

The facility with which the tax can be increased without trouble and change in the machinery of collection, is a temptation, which has, however, to be resisted. The fact that even a small reduction in the salt tax, has immediately led to an increase in consumption, shows the importance of this necessary of life to the poorer classes. The salt tax is regarded as a reserve of financial power to be drawn upon in times of need, and resembles, in this respect, the English income tax or the land tax in England before it was allowed to be redeemed. It is also supposed

to be the only tax that reaches the poorer classes in the country who must be expected to make their own contribution to the expenses of the state.

253. Income Tax.—The Indian income tax has not been very productive and yielded about Rs. 3 crores a year, until the rate was enhanced in 1916 on a graduated scale on incomes of and above Rs. 5,000. This is due to the fact that the people are poor and the number of those who can be assessed is extremely small. Besides, income from land is exempted from this tax, as it has already to bear the burden of the land tax. Then, again, those who would be subjected to a well-designed income tax bringing into its net the wealthy, upper middle, trading and the professional classes and making them pay their due share, are influential people and can resist the imposition of such a tax on one ground or another. Sir John Strachey said :—"There is no country where a tax upon income is more just than in India, but there has been difficulty in imposing and maintaining it because it has been opposed by the richest and most powerful classes, who alone can make their voices heard. It has long been a reproach to our administration that they have borne no fair proportion of the public burden."[1]

Before the present income tax was first imposed in 1886, there had been in existence the license tax on professions and industries. The financial difficulties[2] of that year compelled Government to devise new schemes of taxation. Import duties and a higher tax upon salt were not to be thought of, and Government turned to the income tax as the only resource left to it. How strong was the opposition of powerful classes to an income tax, may be judged from the speech Sir A. Colvin made in the Viceregal Council on 4th January, 1886, in introducing the License Tax Amendment Bill. He said ;—"The financial history of the last 25 years is strewn with the skeletons of discussions on direct taxation and more than one of my

1. India, its Administration and Progress.
2. Gokhale and Economic Reforms, pages 14–15.

predecessors is gibetted on that dismal golgotha for the part which he took in connection with it...the classes in this country who derive the greatest security and benefit from the British Government are those who contribute the least towards it...I know that what I have said as to the immunity of the middle and upper classes from their due share of the public burdens is as a twice-told tale vexing the dull ears of a drowsy man; but it is nevertheless a grievous blot on our Indian administration which urgently calls for removal and which I believe, with patience, prudence and exercise of a little fortitude must and will be removed."[1]

When the Hon'ble Mr. Dadabhoy moved a resolution in the Viceroy's Council in 1912, recommending that the minimum of income assessable to the income tax be raised from Rs. 1,000 to Rs. 1,500 a year (the original limit of Rs. 500 had been raised to Rs. 1,000 in 1903 in Lord Curzon's time when the treasury was overflowing with surpluses), Mr. Gokhale laid down the following sound maxim· "The State has to look at the whole scheme of taxation, first, from the standpoint of its own necessities, and secondly, from the standpoint of the comparative ability of the different classes to pay their particular share of the total revenue raised from the community. Now, judged by this standard, I really do not think that the class for which my Hon'ble friend seeks a remission, has any substantial grievance."

Under the stress of war conditions, Government not only introduced the principle of progressive taxation into its income tax, but also imposed a supertax, in addition, on all incomes in excess of Rs. 50,000 per annum, on a graduated scale. an excess profit tax coming as a temporary war measure to enable the State to share in the huge profits made by a small section of the community out of the exceptional conditions of war time.

In the budget for 1916-17, when at last the tax on incomes was increased, all existing exemptions were left untouched and no alteration was made in the taxation of

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1 Proceedings of the Supreme Legislative Council, 1886.

incomes of less than Rs. 5,000 per annum. On the principle of graduation, the following rates were fixed for higher incomes :—

From Rs. 5,000 to Rs. 9,999...6 pies in the Re. or $7\frac{1}{2}$ d per £

From Rs. 10,000 to Rs. 24,999 ..9 pies in the Re or $15\frac{1}{2}$ d per £.

From Rs. 25,000 to and upwards...1 anna in the Re. or 1s. 3d. in the £.

This increased taxation was calculated to yield £ 900,000.

The super tax came in 1917 and began in respect of incomes exceeding Rs. 50,000 and was to be levied in an ascending scale as shown below :—

For every rupee of the first Rs. 50,000 of the excess, *i. e.*. between Rs. 50,000 and 1 lakh, 1 Anna per rupee.

For every rupee of the next Rs. 50,000 of the excess, *i. e.*, between 1 lakh and 1½ lakhs, 1½ Annas per rupee.

For every rupee of the next Rs. 50,000 of the excess, 2 annas per rupee.

For every rupee of the next Rs. 50,000 of the excess, 2½ Annas per rupee.

For every rupee of the remainder of the excess, *i. e* on every thing above Rs. 2½ lakhs, 3 Annas per rupee.

This was, of course, regarded as special war measure, but the new principle ought to be made to stay. With increasing demands upon the Exchequer, those who are in a position to pay, ought to be made to make a contribution to the expenditure of the State, proportionate to their means. If relief is to be granted, it must be granted to petty, resourceless land-holders whose agricultural incomes are taxed through land revenue. Larger incomes, from whatever source they come, agriculture, industry or trade, have to make their reasonable contribution.

254. Directions of Reform.—We cannot dissociate the problem of taxation from questions relating to expenditure, the machinery of finance and control of financial administration. It has to be first (1) noted that the administration in India is too costly for the poor country and, wherever possible, expenditure must be reduced, especially by substituting Indian agency in the

place of the European. Progress and reform undoubtedly mean greater expenditure and India, poor as she is, must pay the proper price for the advantage of the western methods of administration. But the machinery of Government is more expensive in several parts than it need be and expenditure may be conveniently cut down on many items. Certain ideas of efficiency which dominate the administration at the present moment, must be revised and the spirit of economy must be infused into the administration. This task has been rendered peculiarly difficult by the enhanced scales of salaries of Government servants which have been recently adopted, especially in the higher ranks, in view of the great rise in the cost of living caused by the consequences of the war.

(2) Even when this economy is introduced, the country will indeed have to face a steadily growing expenditure urgently required to promote social and economic reforms. The question of mass education alone will require crores of rupees annually and that reform has been put off from time to time on the plea of want of funds. It will be a delusion to suppose that with a reformed and popular Government, expenditure will decline. If any thing, it will increase. The outlay of funds on education, industries, public works and sanitation will, however, return to the people a hundred-fold in increased prosperity and improved well-being. (3)This will necessitate additional taxation if the natural growth of revenue combined with economy, does not yield enough funds. (4) The chief sources of revenue will have to be customs,—import and export duties,—heavier taxes upon larger incomes and inheritance duties.

Efforts are already being made to improve the machinery and yield of the income tax, and its productivity has recently increased to a material extent. Though a poor country, India will have to develop a universal income tax, with suitable exemptions and deductions and a duty on inheritances. The reformed legislature will be a fit body to undertake the radical measure and the financial automony granted to Provinces, will greatly facilitate the

task of bringing about the proposed fiscal changes. Taxes on luxuries will be a hopeful source of revenue to the Government of India, while the Governments of the Provices should be left to improve the taxes on incomes and property. Increased revenue may also be expected from the existing taxes which will steadily become more productive and also from the commercial undertakings of the State. (5) Imposition of taxes and expenditure of revenue must be brought more under popular control so that Government may not have difficulty in facing popular prejudice and opposition which the beaurocracy has to encounter under existing conditions.

(6) Audit will have to be independent and more strict. Even in England, in spite of an independent Auditor-General and a standing committee of Parliament to keep a watch on and control expenditure, there is a demand that a more effective check should be devised. In India such control does not exist and the proposal was made before the Welby Commission and repeated recently by Sir Dinsha Wacha in the Supreme Council, that an audit machinery like that in England should be set up here. But Government is thoroughly content with things as they are and says that though the system is not perfect, it is quite effective. (7) The decentralization of finance and the power of independent taxation which has now been conferred upon Provincial Governments, must be vigorously exploited with a view to financial development. And (8) the resources of local bodies must be increased by taxation and larger assignments or grants-in-aid, so that more may be spent on the promotion of village sanitation, public works, medical relief and education.

255. Financial Decentralization.–The Government of India was, for generations, wedded to the system of centralization, and its rigid control over the provinces has been slowly and almost reluctantly relaxed in favour of local Governments; but the introduction of responsible government in the provinces under the scheme of constitutional reforms, required the complete separation of the sources of revenue of the two Governments and the substitution

for assignments of Imperial revenue to Provincial Governments contributions from the latter, if necessary, to the exchequer of the Central Government.

Though the provincial Governments in India did not occupy the same position as the constituent states of federated nations like the U. S. A., the progress of this country was not calculated to be rapid unless financial independence was granted to the Provinces. Government of India's policy had always been, and it was more marked before Lord Mayo's reform of 1871, to regard its exchequer as the one national exchequer of India and to treat Provincial Governments as subordinate authorities who were to collect and spend funds that were to be assigned to them. For the past fifty years, a slow development has taken place in the direction of provincial decentralization. But Provincial Governments could neither tax nor raise loans independently. In the place of fixed lump assignments, they were given shares in certain growing sources of revenue, but they had little interest in improving their sources of revenue and in practising strict economy so long as they were under the rigid control of the Government of India.

This state of things had to make room for a system under which Provincial Governments had independent sources of revenue and there were no divided heads as under the traditional arrangements. For instance, customs, railways, the post office, salt and opium could be entirely Imperial, while land revenue, excise, stamps, income tax and forests should be wholly provincial. Military, naval and other charges must be borne by Imperial revenues and the Provinces must make contributions to them on certain fixed principles if the resources of the Central Government proved inadequate. This reform was suggested several years ago, but we move very slowly in this country. The grant of fiscal autonomy to the Provinces and the readjustment of the financial relations between the Central and Provincial Governments could not, however, be long delayed, and became inevitable.

256. Local Finance.—The financial position of municipalities and local bodies also needs strengthening. They must be given growing sources of revenue and greater control over their own affairs. They will also have to increase their revenue by new taxes, additional rates and otherwise, if they are to discharge their functions efficiently. In 1913-14, the total income of all local authorities, district local boards, municipalities, cantonment committees, port trusts &c., was about Rs. 21½ crores. Of this, the revenue of the district local boards was Rs. 7,68,93,890 and that of the Municipalities, Rs. 8,73,45,578. Municipalities raise revenue by imposing Octroi duties and house and water taxes; the local boards have the land revenue cess and there are other sources of income which are not very productive and elastic. The needs of sanitation, improved water supply and communications, medical aid &c., are very urgent and the well-being of the mass of the population depends on what may be spent on these reforms.

This local finance is very important in other countries and the position in India in that connection is unsatisfactory. Mr. Gokhale most successfully brought out this contrast in a speech he made in the Viceregal Council[1] in moving his resolution on the resources of Local Bodies. While in England, out of the total revenue, national and local, the share of local bodies was two-fifths, in India it was only one-fifth, and more than one-half of that one-fifth was administered by the State itself.

It is not possible for us here to enter upon a discussion of the principles on which functions of national and local Government are divided and of the several systems in vogue in different countries, with regard to the relation between national and local finance. The existing local bodies in India are, so to say, exotics which have not yet taken deep root into the soil, and the importance of reviving indigenous institutions like *Panchayats* has come to be recently appreciated. In whatever form we have these

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local bodies, they will succeed only if they are thoroughly popular. Functions like primary education and sanitation will, in any case, have to be performed by them and they will have to look after the local roads, bridges, tanks, hospitals and so forth.

Local bodies are at present severely hampered in their work by the paucity of funds, their resources being hopelessly inadequate to the efficient discharge of their functions. Land and other forms of property are the most suitable objects for local taxation. While income from land above a certain limit may be taxed by the central government for national expenditure, local authorities should be allowed to levy a tax for their own purposes on land in their jurisdiction. Land-holders benefit directly from services rendered by local bodies and they will manage the funds supplied by them to those bodies.

In France, local authorities are allowed to add a rate to various national taxes for their own purpose and in Germany, they have their independent income taxes. In India the land tax, with reductions in the case of very small cultivators, may be handed over to the local bodies as a tax upon property while a general income tax which will fall upon agricultural as much as upon non-agricultural incomes, may be retained in their own hands by the central authorities.

257. Land and Local Finance.—This will sound as a revolutionary proposal, and sudden changes may be deprecated. We shall, however, be content if the principle of the position here taken up is accepted and the change is slowly wrought. The existing machinery of the assessment and collection of the land tax should be retained and the proceeds of the tax should be partly, if not wholly, assigned to local bodies. It may be repeated that the land tax should be a tax upon property or land values and moderate in its incidence, particularly so far as small holders are concerned, the larger agricultural incomes above a certain limit being assessed to the general income tax. The existing assessment of the land tax may even be

retained if a substantial portion of its proceeds is assigned to local bodies.

It has been already shown that the total burden of taxation in India is not light compared with that of other countries. But the distribution of land revenue between the national Government and the local bodies is most unsatisfactory. Mr. Gokhale says :—" In England the bulk of the contribution that comes from land goes to local bodies, the Central Government receiving only a very small amount as land tax. In France more that half the contribution from land goes to local bodies. For the year which I have taken into consideration, for every hundred centimes levied by the state from land, there were 130 centimes levied by the Communes and Departments together. In this country, however, the division is in the proportion of 16 to 1, that is, sixteen-seventeenths goes to the state and only one-seventeenth to local bodies. Now there we have really a serious grievance...If we could get for our local bodies a much larger share of the contribution from land, even if the proportion was not as high as in the West, most of the financial troubles of those bodies will disappear. Of course, my Lord. I do not mean that any large proportion of the land revenue can be transferred at once to local bodies, I urge that, in consideration of this difference, the Government should help our local bodies with large recurring grants."[1]

It should be noted that a large portion of the revenue of local bodies in other countries is derived from land, and if local finance is to improve in India and the functions of local bodies are to be satisfactorily discharged, to the benefit of the mass of the population, we must progress

1 Gokhale in the Viceregal Council.

along the lines followed by western nations. This will necessitate a suitable adjustment of the existing system to the needs of reform and the abandonment of the prevalent theories about land revenue.

258. Public Debt.—We shall now give a brief account of the Public Debt of India. At the outset, we have to emphasise one peculiarity of the Indian debt viz. that its burden has been slight in recent years till it was increased by India's war contribution of Rs. 150 crores to the Imperial Government. While the public debts of European countries have run into hundreds of millions of pounds, chiefly owing to wars, the bulk of the Indian debt has been contracted for productive purposes. It must not, however, be forgotten that in the past we have paid off our unproductive debt out of revenue at great sacrifice. India has had her dead-weight debt incurred for wars, expeditions beyond the frontier, warlike preparations and for meeting famine expenditure and deficits. But whenever there were surpluses, they were systematically used for reducing the public debt, which means that the Indian tax-payers have had their burden of debt paid off out of tax-money.

In the time of the East India Company, political and commercial functions of the State were mixed up together. The continued wars which the Company had to undertake, went on adding debt to debt steadily from year to year, though a part of the deficit was supplied from the commercial profits of the Company. The total 'territorial' debt of India in 1792 was £ 7 millions and increased to £ 30 millions in 1829, to more than £ 51 millions by the middle of the 19th century, and to £ 69½ millions in 1858. The Mutiny made additions to the public debt. It went

up to about £ 129 millions in 1876. The debt stood as follows during the subsequent years:—

31st March.	In Sterling. Mill.	In Rs. 15 Rs. = £1. Mill.	Total £.	Interest £.
1888	84·1	65.4	149·5	6.2
1893	106·7	68·6	175·3	6·7
1898	123·8	74·4	197·3	6·7
1903	133·8	78·2	212·0	7·1
1908	156·5	88·5	245·0	8·1
1913	179·1	95·2	274·3	9·5

The 'ordinary' or unproductive debt was gradually reduced, and the productive and unproductive debts are distinguished in the following table :—

Ordinary and Productive Debt.

	Ordinary.	Productive.			Total.
31st March.	Mill. £.	Railway.	Irriga-tion.	Total.	Mill. £.
1888	73·0	59·2	17·3	57·65	149·5
1893	65·0	61·0	19·3	110·3	175·3
1898	70·0	106·0	21·7	127·7	197·7
1903	59·1	128·1	24·8	159·2	212·0
1908	37·4	117·7	29·9	207·6	245·0
1913	25·0	211·8	37·5	249·3	274·3

Unremunerative debt shrank in 20 years from being ½ to [illegible] of the total volume of outstanding loans. The reduction reflects approximately the extent to which current revenue have been devoted to capital expenditure There is a sort of sinking fund arrangement by which to reduce the unproductive debt, while for the redemption of the productive debt provision is made for annuities &c. in the railway expenditure. Interest charges debited to railways, contain items of this description, so that the true profits from the railways are higher than those shown in the accounts. "In any year in which, owing to the use of surplus revenue or deposits for the construction of public works the capital expenditure of the year exceeds the amount of debt incurred in the year, the effect of this system of classification (Ordinary and Productive Debt) is to cause a decrease to be shown in the amount of the ordinary debt." The Debt stood as follows on 31st March, 1913 :—

(*a*) Permanent Debt.	£
Debt for Railways	211,832,819
" " Irrigation works	37,552,030
For initial expenditure on Delhi ...	119,886
Total of Public Works Debt ...	249,504,785
Balance, being Ordinary Debt ...	24,898,777
Total Permanent Debt ..	274,403,512
(*b*) Temporary Debt incurred on security of India bills ...	Nil.
Total debt (permanent and temporary)	£ 274,403,512

The position at the close of the year 1916-17 was as follows:—"On the 31st of March, 1917 the Indian Public Debt amounted to £ 282,718,262 (viz:—rupee debt converted into sterling at 1 s. 4 d. the rupee, £ 108,573,538, and sterling debt, £ 174,144,724). There were also other obligations of the Government of India, including Savings

Bank balances, Judicial and Departmental deposits, balances of service funds &c. amounting to £ 31,604,377, and the various railway annuities, representing in the present year a charge of £ 994,013."

The Public Debt was thus distributed among the different forms as follows :—

Million £

	Ordinary.	Railways.	Irrigation.	Total Railway & Irrigation.	Grand total.
1913 ...	25·0	211·8	37·6	249·4	274·4
1914 ...	12·8	222·0	39·4	261·3	274·2
1915 ...	2·2	233·2	41·1	274·3	276·5
1916 ...	2·0	234·4	42·4	276·8	278·8
1917 ...	3·7	235·7	43·3	279·0	282·7

Government raises, for its capital programme, rupee loans in India and sterling loans in England, and for purposes of railways, the latter are necessary as sufficient amounts cannot be raised in this country. While exchange was unstable, sterling borrowings entailed a heavy charge; that difficulty has now been removed. It is still desirable to raise as much capital in India as possible. Construction and maintenance of railways require, according to the high standard laid down, large amounts which cannot be secured in this country, and the amount of interest that has to be paid to England, increases year after year. The War Loans are, of course, extraordinary loans, and though their success has been gratifying so far as it goes, the total obtained by Government out of the Rs. 150 crores, showed the poverty of the country compared with the abundant wealth of other nations.

259. War Loans.—But the fact that the response of the people to the appeal from Government for the first War Loan, exceeded all expectations and reached £ 36 million, taught the lesson that if her resources, limited

as they are, are properly tapped, India is capable of yielding large amounts as a contribution to the Public Debt. The War has undoubtedly brought copious funds into the hands of several persons, and this abundance of loanable capital will not be a feature of peaceful times. But it is hoped that Indian people will be able in future to satisfy the annual capital needs of Government and that it need not look to London for loans. This will be an eminently desirable development as it will save a steadily increasing amount of money from going out of the country, in the form of interest to outside investors. The Cash Certificates issued by the Post Office were a novel feature of the war loan of 1917 and they have now become a permanent measure.

People were induced to invest in the war loans through the Post Office and there were also long and short time securities offered. The amounts obtained in 1917 were as follows :—

	Millon £
Main Loan	26·6
Postal Section	2·9
Cash Certificates	6·6
Total ...	36·1

The loan was distributed as under :—

	Mill. £
5 per cent. long term Loan of 1919–47	8·3
5½ per cent. 3-year War Bonds	13·2
5½ per cent. 5-year War Bonds	8·0
Total ...	29·5

The experiment of 1917, having proved encouraging, it was decided to repeat it in 1918 and it was arranged that the money raised by means of the war loans should be paid over to His Majesty's Government as part redemption of the war contribution of £ 100 million made by India of which a third had been already paid off. The loans had the welcome effect of placing at the disposal of the Government of India sufficient funds to make disburse-

ments for His Majesty's Government. In 1918-19 the receipts from the main section of the loan amounted to Rs. 51½ crores, Government having offered 7 and 10 year Bonds at 5½ per cent. free of income tax in addition to 3 and 5 years War Bonds. The receipts from the Post Office section exceeded 5½ crores. The offer of a 5 per cent. income tax-free loan without limit of amount and repayable in 1945-55, in 1919-20, gave the Government 21¼ crores of rupees, of which Rs. 61¼ lakhs were received through the Post Office. The special propaganda associated with the previous two war loans was not repeated this time and therefore, the public response was particularly encouraging.

The Government of India used to raise temporary loans long ago by issuing treasury bills; but their place was later taken up by the special reserves which were drawn upon in cases of need. But 'the drain on our resources caused by heavy war payments for His Majesty's Government and the Secretary of State's Council bills led us in the middle of October (1917) to introduce a new experiment—the issue of short term Treasury Bills which could be taken at option for periods of 6, 9, or 12 months.' Three months' bills also were issued later on and by the end of the year 1917-18, about £ 30 million was obtained in this way.

260. Reduction of Debt.—While our Finance Ministers used surpluses to reduce the unproductive debt, small though it was, the late Mr. Gokhale contended, year after year, that they should have been mainly devoted to the financing of schemes of social reform. Persistent surpluses, he urged, were funds taken out of the pockets of the tax-payers and must either be returned to them through

remission of taxation or, much better, be devoted to the spread of education, improvement of sanitation and so on. The following long extract from one of his speeches in the Viceroy's Council, gives a lucid exposition of the Public Debt position in India and of his views in that connection :—

"Sir, what is the amount of our debt? Our total debt is made up of various component factors. There is the permanent or funded debt. There is the temporary or unfunded debt. And there are various funds with the Government, such as savings banks deposits, service fun s, special loans, judicial deposits in courts and so forth. Against this the Government have their Railways and Irrigation works, their loans and advances to local bodies, Native States and cultivators, and their cash balances. Deducting these latter from the total debt, what remains is the true ordinary or unproductive debt. Now taking the figures for 1907-8 and bringing them up to date, we find that in 1907-8 the permanent debt in India was 88·55 millions; the permanent debt in England was 156·48 millions, or, in the two countries together 245 millions. That was the funded, permanent debt, that year. The unfunded debt in that year was only 1 million. Then about 20 millions represented special loans, service funds, saving banks deposits, departmental and judicial deposits and miscellaneous obligations of the Government, or total liabilities of 266 28 millions or 400 crores of the liabilities of the Government. As against this the Government of India had in that year 177·7 millions invested in railways and 29·87 in Irrigation works or a total of 207·57 millions under the two heads together. The Railway debt was earning about 5 per cent, the Irrigation debt about 7 per cent. Therefore it was really no debt at all in the sense in which

the term debt is used. That accounted for 207 out of 266 millions. Then the loans and advances by Government to various Local Bodies, Native States and cultivators amounted in that year to 13 millions, and the cash balances were 18·6 millions. Thus 239 millions out of 267·28 millions represented the investment and cash balances of the Government, leaving only about 27 millions of real unproductive debt for the country. This was in 1907-08. Since then the position has undergone some deterioration. Of course, there has been additional borrowing for Railways and Irrigation, but we we need not take that into account since Railways and Irrigation investments are earning 5 and 7 per cent. interest respectively. But there was a deficit in 1908-09 of 3·74 millions. In 1909-10 there was a surplus of ·61 million and this year excluding the opium surplus of 3 millions, there is still a surplus of .49 or half a million. The position therefore during the last 3 years has undergone a deterioration by about 2·64 millions and we must add that to the figure for 1907-08 to find the total unproductive debt at the present moment. This comes to 29·7 millions, say 30 millions. Or if the Finance Minister will prefer it, I am prepared to take the funded unproductive debt, as it appears in our accounts, which is 37 millions That means making a present of about 7 millions to the Hon'ble Member but I will do so and will take 37 millions for the purposes of my argument. Now, Sir, what is a total unproductive debt of 37 millions for a vast country like India? What is such a debt compared with the huge debts of other countries? And is the reduction of this trifling debt a matter of such paramount importance that everything the Finance Department can lay hands on should be devoted to this reduction to the practical exclusion of all other useful objects, as has been done, during the last 10 or 12 years? Sir, my protest against this policy

of the Government has been a long-standing one. Year after year, for the last 10 years, I have been raising my voice in the Council against this policy, but so far without much effect. How does our unproductive debt compare with that of other countries? In England at the present moment, you have a national debt of over 700 millions, corresponding to our unproductive debt. In France it is over a thousand millions. In several other countries it is four to five hundred millions. Even in an Eastern country like China it is about 110 millions, though the annual revenue is much smaller than ours. The Hon'ble Member speaks of the necessity of strengthening our credit. If we look at the rates of interest at which different countries borrow, it will be found that our credit is exceedingly good."[1]

It was plausibly contended on the other side that a surplus could not be put to a better use than to the reduction of unproductive debt and that a similar sinking fund arrangement existed in Great Britain for extinguishing public debt. What happened in India during the first decade of this century was that surpluses persisted in occurring year after year, averaging about Rs. 4 crores a year. This was due partly to underestimation of revenue and overestimation of expenditure and partly to the existing high level of taxation—an effect of the new currency policy inaugurated in 1899. The surplus revenue ought, therefore, to have been spent on measures of social reform rather than in reducing the public debt. India's unproductive debt has now increased by the addition of £ 100 million, an amount given as a war contribution to Great Britain. Sinking fund arrangements have been made in connection with this debt. It must be remembered that against this, we

1 See Gokhale and Economic Reforms, pages 219–222.

have a special reserve of £ 20 million, and about £ 36 million of the Gold Standard Reserve. The Public debt position of India will be clear from the following table :—

Debt outstanding on 31st March	1914–15	1916–17	1917–18 Revised.	1920–21 Budget.
	£	£	£	£
Sterling	183,190,358	174,144,724	238 505,524	192,632 570
Rupee Debt—	Rs.	Rs.	Rs.	Rs.
Permanent Debt—				
New Loan ...	...	..	...	15,00,00,000
5½ per cent	..	...	...	29,39,34,677
5 per cent ...	...	1,10,51,523	27,09,65,523	44,84,24,394
4 per cent .	3,19,00,000	21,46,54,000	16,16,77,000	17,24,92,100
3½ per cent ...	138,12,21,400	132,02,13,950	118,90,98,950	119,12,23,073
3 per cent .	8,20,59,500	7,26,69,400	6,61,93,400	6,56,36,250
Other Debt .	1,00,84,800	1,00,14,200	1,00,13,900	1,00,14,000
Temporary Debt—				
Treasury Bills .	...	...	41,00,00,000	31,00,30,000
5½ per cent. War Bonds.	...	4,91,67,255	31,74,74,065	38,26,04,942
Other Loans ...	...	50,00,000	...	...
Savings Banks Balances.	21,84,66,176	25,25,68,358	30,26,37,358	32 00,23,358

261. Provincial Finance.—In the course of the evolution of the financial relations between the Government of India and the Provincial Governments, the latter had come to secure shares in growing sources of revenue, and the quinquennial contracts about those shares, had been converted in 1904 into quasi permanent, and in 1911, into permanent agreements. The new system was free from some of the conspicuous evils of the old viz., the quinquennial revisions of the contracts, the raids made by the Government of India on the provincial resources and the

scramble among the Governments for larger assignments of revenue. Still the Provincial Governments had no power of levying taxation and of borrowing on their own account and the 'doles' which the Central Government gave to them out of its surpluses, proved inconvenient. The introduction of partial responsible Government in the Provinces and the grant of a large measure of autonomy to the Provincial Governments, necessitated a wholesale rearrangement of the financial relations on the lines of federal organization towards which the country had been imperceptibly moving. In their report on constitutional reforms, Mr. Montague and Lord Chelmsford, therefore, proposed that the Imperial and the Provincial sources of revenue should be entirely separated, that land revenue which was every where a shared head, and irrigation and excise wherever they were divided, should be provincialized and also receipts from judicial stamps. The income tax and receipts from commercial stamps were to be handed over to the Government of India to supplement the entirely Imperial sources of revenue such as customs, railway receipts, salt and opium.

This redistribution of resources was, however, calculated to leave a deficit in the Imperial exchequer and it had to be made good by contributions out of the gains made by the Provincial Governments. It was calculated that on the budget figures for 1917-18, the Imperial deficit would amount to Rs. 13'63 crores; and this amount was to be distributed over the provinces, each contributing 87 per cent. of its gross surplus accruing under the proposed scheme. This arrangement did not, of course, presume to remove the inequalities that existed as regards the financial contributions and sacrifices that Provinces had to make in different proportions to their revenues. Powers of independent taxation and borrowing were likewise to be conferred on the Provinces, to be exercised within obvious limits required by the peculiar relations in which they stood to the Central Government.

262. The Meston Committee.—The scheme proposed in the Joint Report was not received with favour,

and on the recommendation of the Joint Select Committee of Parliament which considered the Reform Bill, the Secretary of State appointed the Meston Committee to give advice as to the provincial contributions to be made to the Imperial exchequer and allied questions. Owing to the savings which the Government of India was able to make in its expenditure, brought about by a high rate of exchange, its contemplated deficit had been reduced from 13·63 to 6 crores. But the Meston Committee increased it to about Rs. 10 crores by proposing the provincialization of the revenue from General Stamps and with slight adjustments, it proceeded to discover a formula for distributing the amount of this deficit among the Provinces. It sought to fix the 'initial contributions' which would, in the course of seven years, become 'standard contributions.'

The Committee could not conceal from itself 'the disadvantages in ordinary circumstances, of a system of provincial contributions' and anticipated that 'the Government of India will direct its financial policy towards reducing those contributions with reasonable rapidity, and their ultimate cessation.' But it could not devise a suitable method for redressing the grivance of a province like Madras about a proportionately larger portion of the revenues contributed by its people, being assigned to the Imperial exchequer. For doing justice to Madras, it could not reasonably leave other Provinces to levy additional taxation to finance their normal requirements. The Committee examined various basic principles suggested for distributing the Imperial deficit, such as revenue, population and expenditure and hit upon the plan of assessing provincial contributions upon the amounts of 'additional spending power' acquired by the Provinces by the re-

distribution of their sources of revenue. Its recommendations were summed up in the following table :—

In lakhs of Rs.

Province.	Increased spending power under new distribution of revenues.	Contributions as recommended by the Committee	Increased spending power left after contributions are paid.
Madras ...	5,76	3,48	2,28
Bombay ...	93	56	37
Bengal ...	1,04	63	41
U. P. .	3,97	2,40	1,57
Punjab ...	2,89	1,75	1,14
Burma ...	2,46	64	1,82
Bihar & Orissa...	51	Nil.	51
C. P. ...	52	22	30
Assam ...	42	15	27
Total ...	18,15	9.83	8,67

263. Provincial Contributions.—In making its recommendations, the Financial Relations Committee had to take care to see that no Province was started on its career of financial autonomy with a deficit budget or with the immediate necessity of additional taxation. It had, therefore, to impose a higher contribution upon Provinces like Madras and the Punjab whose gains were comparatively extensive, and to give room for dissatisfaction and protest. The Government and the people of Madras, for instance, strongly disapproved the proposal that their Province should be made to contribute Rs. 3·48 crores out of the Rs. 5·76 crores which was the increased spending

power secured by it. The initial contribution of Madras was to be 35½ per cent. of the total Imperial deficit against the 5½ per cent. of Bombay and 6½ per cent. of Bengal.

The complaint of Madras was that the unequal and the unjust treatment which had been meted out to the Province for years, was going to be perpetuated. With a population twice as large as that of Bombay, Madras had to be content with a revenue and expenditure which were not larger. And under the proposed scheme the burden imposed upon it, was again heavier. While this was the ground of the Madras protest, Bombay had a grievance of its own. It had reference to the proposal of the Meston Committee that the entire proceeds of the Income-tax collected in Bombay should be transferred to the exchequer of the Central Government.

The Committee was swayed in its decision to hand over the whole of the income-tax receipts to the Imperial exchequer by various considerations among which the cheif were the high level of the cost of administration which had been attained in Bombay, the long strides with which its revenues had advanced during recent years and the industrial and commercial wealth and the enterprise of the people of the Presidency. Curiously enough, these very reasons were strongly urged against the Committee's suggestion. It was contended that the tax on incomes was the only means the Government of Bombay would have to tap the wealth of the people, that land revenue and excise had already reached the limits of productivity and that the development of the Province was bound to be seriously retarded if the income-tax was handed over to the Central Government.

264. Financial Readjustment.—From the account given in the preceding sections, of the development and the present position of Indian finance, it will have become clear that the fiscal system and prospects of the country have undergone important modifications. There is first of all, (1) the enormous increase which has taken place in the total expenditure, which is calculated at £ 134 million,

including a surplus of £ 2 million, for the year 1920-21, against £ 112½ million in 1917-18 and about £ 83 millions in the last pre-war year, 1913-14. This is an increase of nearly 60 per cent., and there is little probability of any reduction in the national expenditure. The Army expenditure has nearly doubted and the salaries and expenses of civil departments are expected to cost about £ 29 million as compared with £ 18 million before the war.

(2) The increased expenditure is being defrayed mainly out of the expansion of customs, excise and income tax revenue. Customs yielded £ 7½ million in 1913-14 and are calculated to yield £ 13⅓ in 1920 21, the increase being largely due to enhancement of duties effected during the war. Before the war the Income Tax barely produced £ 2 million; in 1920-21, it is expected that it will give £ 13½ million, thanks to the reorganization of the whole system of the tax and the imposition of the super tax. The increase in the excise revenue is due to the higher prices of liquor and the increased license fees obtained by Government. Revenue from customs duties will have to be conserved and schemes of Imperial preference will have to be carefully scrutinized with a view to safeguard the national revenue. Though taxation upon consumption is not desirable, it will not be a practical proposition to dispense with customs duties of a restrictive character for many a long year.

(3) The redistribution of the revenues of the Government of India and the Provincial Governments, is another feature that deserves notice. Provincial legislatures will not be over anxious to levy additional taxation, but the natural increase in the revenues of the Provinces may be confidently looked forward to owing to the fiscal autonomy which has been conceded to them. The financial needs of the Provinces for schemes of development are urgent and the Central Government will have to dispense with Provincial contributions at an early date and must improve its own sources of revenue. The injustice done to Bombay in the transfer of its share of the income tax to the Government of India, must likewise, be redressed.

(4) The improvement of local finance is a subject of equally great importance. The total receipts of local authorities in the United Kingdom in 1913 amounted to £ 200 million and thus equalled the total national revenue of the country. Of this, 41 per cent. represented receipts from rates. The aggregate revenues of all local bodies in India do not exceed Rs. 30 crores against a national revenue of Rs. 200 crores. These bodies must be allowed to raise revenue from land and for this purpose, the present land tax will have to be handed over to them after the necessary readjustments. The popularization of local self government must go hand in hand with financial improvement in the case of the local bodies.

(5) Except for the large addition of £ 100 million, the war contribution of India to the Imperial Government, which is not shown as ordinary registered debt and does not, therefore, fully figure in the table exhibiting India's national debt,given in a preceding section, the public debt of the country, is wholly a productive debt. Provincial Governments will now be allowed to borrow on their own account for carrying out works of development and local bodies must do the same on a larger scale for financing works of sanitary and other improvement. This will mean a valuable investment which is calculated to yield a handsome return in improved public well-being and increased financial productivity.

265. Taxes Upon Income.—More efficient exploitation of national property such as forests, railways, and minerals ought to give the State a steadily growing revenue in the near future and the prosperity of industries and trade, is calculated to bring more grist to the State mill. But the most hopeful and proper source of increase will be taxes upon income. The principle of graduation has been already applied in a pronounced form to the income-tax in India, and the methods of assessment and collection are being fast improved with beneficial financial results.

It was felt for a long time that the tax upon incomes was opposed to the genius and the traditions of the Indian

people and that it was, therefore, not a suitable means of drawing State revenue. The failure of the early efforts in this direction, gave point to this view and it was exploited by the wealthy classes whose opposition was inspired, mainly by self-interest. The first income-tax in India imposed by Mr. Wilson in 1860, was based upon the English model, there being four schedules instead of the five of the British Act. It had all the features of the English tax, its exemptions and graduation, but not proving very productive, it was abandoned in 1865 and a license tax upon trades and professions was substituted in 1867.

The License tax and the Certificate Tax of the same nature which succeeded it for a year, had a short life and the Income tax was revived in 1869 to be abolished again four years later. The permanent Income tax was imposed in 1886 and has remained in operation since then, the only important changes introduced in it, being the raising of the taxable minimum from Rs. 500 to Rs 2,000 in 1919, and the super tax being tacked on to it in 1917 The Income Tax Act of 1918, was intended to improve the machinery of the assessment and collection of the income tax and there is a very wide scope for this improvement. There are difficulties in the way of ascertaining incomes of people and the system of calling for declarations from assessees is being substituted for that of the officials making up a register on such information as may be collected by them. Even so, many incomes escape or are taxed at a lower rate, but the assessment and collection at the source, as in the case of salaries and pensions of Government servants, profits of registered companies and firms and interest on Government securities, are more accurately effected.

It is clearly necessary that death duties and inheritance taxes on the British model, should be introduced in this country. These taxes constitute a legitimate and efficient method of making wealth pay its reasonable contribution to the national exchequer. The principles of graduation and of differentiation as well as that of exemption should be adopted as in England. It may be

objected that these taxes will not be very productive and that the trouble will not be worth taking. It is true that the average amount of wealth possessed by people in India is comparatively small, and that persons who have sufficiently large incomes to render them liable to pay the income tax, are very few. When the taxable minimum was raised from Rs. 1,000 to Rs. 2,000 in 1919, for example, the concession gave relief to no fewer than 2,37,000 petty assessees out of a total of 3,81,000 persons who were assessed to the income tax before. Nevertheless, if the State wants more money, it has to devise an equitable system of taxation which will conform, as far as practicable, to the sound fiscal maxim that every member of the community should be made to contribute to the national purse in proportion to his ability which is to be guaged by the income he derives.[1]

1 See L. G. Chiozza-Money : Riches and Poverty, Chapters XXI and XXII.

CHAPTER XVIII.

Prices and Consumption.

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266. Price Levels:—When we estimate the comparative utility of an object, there emerges the idea of its value. The value of one object may be expressed in terms of other objects when the comparative estimates of their desirableness are stated. There are several theories in Economics in connection with the causes of value with which we are not here concerned. What is to be noted is that when value is expressed in terms of money, it is called price, and as barter has disappeared in all civilized countries, the question of prices has assumed considerable importance. What is the cause of price, whether it is cost of production or the relation of demand for and supply of goods, need not be here considered. But it is necessary to understand that money is itself a commodity and as values are expressed in money, its own value is an important economic factor.

The rise or fall of the prices of different commodities may be due to different causes. When the supply of a

commodity exceeds the demand for it, sellers have to be content with a smaller price the purchaser may be willing to give. The reverse will happen if the demand exceeds the supply. What will be the degree of the rise or fall, will be determined by the keenness of the demand and the ability of the supply to wait for a turn of the market. Much depends upon the conditions under which the supply is produced, the time required to increase it, the substitutes with which the consumer is likely to be satisfied, and so forth.

Price is, therefore, an illustration of the law of demand and supply. There cannot be a general rise or fall of values, but this phenomenon can take place in the case of prices. Money is a measure of value, and if owing to a change in demand for or supply of it, its own value changes the change must be reflectd in a general alteration in the prices of all commodities. Prices of different commodities are always rising or falling in different degrees, and the changes may be accounted for on the ground of deficiency or excess of supply or of demand. But a more or less uniform rise or fall cannot be so explained and we must look for an explanation of the phenomenon in the change of supply of the common measure of value viz. money.

267. Quantity Theory of Money.—A rise of prices means depreciation of money. When prices go up, the purchasing power of money goes down. In fact, the rise of prices and depreciation of money are two aspects of the same phenomenon. The fact that prices go down, means that a smaller quantity of money is sufficient to buy a stated commodity and there is appreciation of money. It is on this relation between prices and the quantity of money in circulation that the "quantity theory of money" is based. The quantity of money includes paper as well as metallic money, because credit very largely expands that quantity;

and the velocity with which money moves from hand to hand in exchange transactions, practically adds to the quantity. If the increase in quantity is accompanied by an increase in the volume of exchange transactions, the price relation will remain unaltered.

Taken with its limitations, the quantity theory of money is perfectly sound and satisfactorily explains the general rise or fall in prices. If the number of coins in circulation increases to a larger extent than the commodities for which they are to be exchanged, there will be too much money and prices will rise. There will be a fall of prices if the quantity of money decreases or the quantity of goods to be exchanged increases while the circulation of money remains unchanged.

We shall not here deal with the elementary considerations relating to factors which govern the fluctuation of prices in general and with the nature of customary and monopoly prices. The question of prices in India, as elsewhere, is mainly a question of the operation of the law of demand and supply; and evidence for this is to be found in the rise of the level of prices of food grains in times of famine and scarcity. The defective character of communications and absence of keen competition as also the predominance of custom in the economic relations of people, long governed the course of Indian prices But the railways which have brought the various parts of the country into closer contact with one another and India itself into intimate touch with foreign countries, have changed the nature of the problem of prices, which are more susceptible than before to changes in the markets of the world.

The history of prices in this country reveals the influence which the character of the monsoon exercises

upon their constant rise and fall. Though the improvement of the means of communication has tended to an equalisation of prices in different parts of the country and to a general rise in them, the prices of food grains, of raw materials and of indigenous manufactures are still regulated by the favourable or unfavourable nature of rainfall, the prices of imported goods being but slightly affected from year to year. Varying local prices are fast being replaced by uniform general prices and the country is becoming one common market instead of a series of small local markets as in the past. Retail prices are also being regulated by wholesale prices much more strictly than before. And it is important to note that price levels appear to have been affected by the currency policy of Government and therefore by the quantity of money in circulation.

268. Course of Prices.—As we have just remarked, the favourable or unfavourable character of rainfall, its deficiency and excess, is generally the regulator of prices in India and particularly those of the food of the people. The prices of articles of export, bulk of which are the products of the soil, are likewise similarly governed, though demand for them in foreign countries is an important factor in their case. The famine prices of 1877–78 and of 1899–1900 and the fabulous cotton prices during the American War of Secession (1861–65) are instances in point. War prices of the past few years are the combined effect of several causes, shortage of shipping, congestion on railways, deficiency of production and supply and augmented circulation of money.

The general level of Indian prices began to rise in 1904, and went higher and higher every year, until the rise assumed almost alarming proportions. The index

number went up from 100 in a normal year before the rise commenced, to 140 and even to 200 and more in certain cases. The rise was attributed to different causes by different people; and while it was welcomed by some as an indication of growing prosperity, others traced it to the pressure of population on land and the normal deficiency of food supply as also to the currency policy of Government, which had, since 1899, artificially enhanced the value of the rupee. The question was discussed in the press and in the Viceregal Council, and the appointment of a commission of inquiry was suggested. Government thought that the new currency system inaugurated in 1893 and completed in 1899, had not had a sufficiently long trial and that commissions had always an unsettling effect upon things; they, therefore, deputed Mr. K. L. Datta to collect statistics on the question of high prices and asked him to submit to them a report thereon.

We give below index numbers of prices of a few selected articles, showing fluctuations and the recent appreciation :—

I

Year.	Wheat.			Rice.		Bajree.	
	Delhi.	Calcutta.	Ahmedabad.	Calcutta.	Madras.	Delhi.	Ahmedabad.
1873	100	100	100	100	100	100	100
1891	135	98	122	91	145	151	122
1895	110	93	107	100	138	122	134
1900	168	113	149	110	180	145	201
1905	147	108	121	142	197	145	146
1909	203	142	155	156	218	157	166
1913	183	102	175	187	218	168	175
1915	239	...	187	197	203	229	208
1917	219	...	180	175	216	171	147

II

(Average of 1900–09 = 100),

Articles.	1900	1905	1910	1913	1916	1918	1919
Wheat ...	106	84	109	107	128	149	211
Rangoon Rice ...	94	75	97	124	101	88	131
Raw Cotton (Broach) ...	95	93	94	134	127	283	276
Cotton piece goods, (Indian) Average ..	94	100	118	115	88	141	176
Tea ...	94	91	127	128	158	131	224
Country Rice ...	83	86	99	117	127	101	178
Ghi ...	88	96	124	142	134	162	204
Country Salt ...	95	96	108	108	188	496	370
Imported cotton piece goods (average) ...	91	96	114	119	196	295	322
Java Sugar ...	...	118	107	101	175	158	232
Kerosene oil ...	109	90	108	118	124	189	220

III

Year.	Special Index No for Food Grains (Retail Prices). Col. 1	Special Index No for Imported Articles (Whole-sale Prices). Col. 2	Special Index No for articles Exported (mostly wholesale) Col. 3	General Index No for articles Covered by columns 2 & 3 Col. 4.
1910	100	100	100	100
1911	96	104	107	106
1912	112	107	114	112
1913	118	107	121	117
1914	132	105	126	120
1915	130	134	122	125
1916	120	217	128	151
1917	120	240	134	161
1918	161	265	157	184

269. High Prices in India.—The causes of the high prices, Mr. Datta concluded, were mainly of two kinds :—(1) causes peculiar to India, and (2) causes whose

effects were world-wide. Among the former were (i) a decreased production of food stuffs, (ii) an increased demand for Indian raw materials and food products, (iii) development of communications, and (iv) decrease in the cost of transport; and among the latter, the chief were (i) an increased supply of gold, (ii) development of credit, (iii) destruction of wealth in wars and (iv) expenditure on the armaments, Mr. Datta thought that all these causes combined to raise the prices in India and that the rise was not due to any one cause. He was, however, convinced that the prices of food stuffs in this country had risen on account of the fact that the food supply of India, compared with the demand, reached its lowest level in the quinquennium 1905-09 and thus shortage of supply undoubtedly contributed, in no small measure, to the unusual rise in prices during that quinquennium.

Broadly speaking, three theories about the rise of prices, held the field: (1) that the large volume of the rupee currency which, under the gold exchange standard system, ceased to be automatic, led to the depreciation of the token rupee; (2) that Indian currency had nothing to do with high prices which could be explained by economic changes of considerable magnitude going on in India and the outside world; and (3) the pressure of population and deterioration of the soil were mainly responsible for the rise of prices. Finance Members like the Hon'ble Mr. Baker and Sir G. Fleetwood Wilson, held the second view, and it was endorsed by Mr. K. L. Datta. Mr. Gokhale and others were inclined to accept the first theory and some emphasised the third. These views found expression in the Viceregal Council, when the question was referred to year after year.[1]

That the quantity theory of money applied to the problem, seems to have been admitted by every one; and the difference lay in the emphasis laid upon the different terms in the price equation $M \times V = T \times P$. (M = money, V = velocity of circulation, T = trade or volume of exchange

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1 See Gokhale and Economic Reforms: pages 183-187.

transactions and P = price) and on the part played by the quantity of the token rupees in circulation. Thus Mr. Datta thought that the quantity of money increasing with the expansion of credit and increase in its velocity, prices of food stuffs were bound to increase while the volume of their production remained steady. The Government of India did not, of course, admit the explanation of Mr Datta about the insufficient supply of food grains [1] This theory is only an application of the law of demand and supply and must hold good if proper attention is paid to 'other things remaining the same.'

270. Currency and Prices.—Making full allowance for the fact that "India by its adoption of a gold standard, has been switched on to the currency guage of the rest of the world and is undoubtedly bearing its share in the price fluctuations to which the rest of the world has been subject,"[2] and for the increased demand for certain of India's products, which has overtaken the supply, as also for the pressure of population on a food supply which does not increase, one is led to believe that the general rise of the price level was, to a considerable extent, due to the disproportionately large supply of currency. The spell of high prices ruling in Europe and America had been attributed to the increased output of gold and the consequent expansion of currency and credit all the world over. The same phenomenon was to be markedly witnessed in this country, and the relation between high prices and the Indian currency system seemed to be intimate.

The official view was that the Indian currency system was automatic, that no more rupees were issued from the mints than were absolutely necessary for the purposes of trade and that it was the rise of prices which had necessitated the increased coinage of rupees. Government certainly issued rupees in response to the demand of trade, but the output of these token coins had been exceptionally heavy. Mr. Keynes says :—"The effects of heavy coinage are

1 See pages 159-162 above.

2 Sir Guy Fleetwood Wilson in the Viceregal Council.

cumulative The Indian authorities do not seem to have understood this. They were, to all appearances, influenced by the crude inductive argument that, because there was a heavy demand in 1905-06, it was likely that there would be an equally heavy demand in 1906-07; and when there was an actually heavy demand in 1906-07, that this made it yet more likely that there would be a heavy demand in 1907-08. They framed their policy, that is to say, as though a community consumed currency with the same steady appetite with which some communities consume beer."[1]

There was, during the years 1902-1907, a close parallelism between the growing output of rupees and the steadily rising prices. The rupees are not now melted as they used to be before the closing of the mints, as this procedure entails a loss. When the price of silver rose, it was at times profitable during the latter part of the war period, to melt rupees and use them as bullion; and it is believed that in spite of Government prohibition, large quantities of these coins were melted in this way. The absorption of currency among the people has been on a steadily increasing scale and this inflation must have had a material effect in pushing up the price level. Experience has taught that rupees distributed over the interior of the country in payment for the staple products, do not quickly return to centres of commerce and industry and efforts have sometimes to be made to get this currency back. If additions continue to be made to the existing stock of rupees, the inflation must raise prices though not in the same proportion, because a part of the currency is required to meet the increasing volume of trade. This is the way in which the unautomatic character of the currency system acts upon prices.

271. Inflation of Currency.—Currency is indeed issued in response to a demand for the financing of the export trade in cotton, wheat, jute, oil seeds etc Much of this currency returns to Government treasuries and banks, but a portion remains in the hands of the people and in

1 Indian Currency and Finance.

circulation. These continuous additions to the currency cannot but result in inflation, the only counteracting force being the steady growth of trade. The experience of the year 1916-17 as to the extremely slow movement of rupees from circulation into the Government treasuries. indicates that heavy absorption of currency, year after year, must have had something to do with the rise of prices along with other factors in the complex problem. Similar absorption has recently taken place in the case of currency notes also, and the process of deflation has already been in operation for some time.

The question of inflation has formed the subject of discussion in all countries during the period of war. The high prices ruling during this period, were admittedly the result of a deficiency of supplies of commodities chiefly on account of the shortage of tonnage and war destruction. In India the rise in the prices of articles of import has been much greater than that in the prices of articles of local production. The relation between the prevelent high prices and the heavy absorption of currency has been denied by officials. How the two are related it is extremely difficult to determine. But that prices have been pushed up at least partly by the large supplies of currency seems to be certain. Crores of rupees were spent by Government for war purposes, and the coins and notes they put into circulation, were slow to return to the State treasuries. Hence the necessity felt of attracting the metallic currency by means of war-loans back to the treasuries and the banks.

The problem of prices is complex and various factors exert their influence in determining the price levels. Insufficient supply of Indian products, high gold prices ruling in outside markets, a large external and internal demand for Indian products, the expansion of credit—all these factors must be given their due weight. But the peculiar character of the rupee currency, and the manner in which it is issued and is absorbed, cannot be ignored as an important cause of the rise of prices. A rise thus brought about, cannot be complacently regarded as natural and

beneficial, and an effort must be made to minimise the influence of that cause by improving the existing currency system. The idea of prosperity induced by high prices must prove misleading if all the factors causing the rise are not taken into account.

272. Effect of High Prices.—In our Chapter on Production and Population we have shown how, " if more mouths have to be fed with the same or nearly the same quantity of food, the prices must rise and this rise cannot be an object of congratulation or consolation in view of the fact already noted that the closing of the other industrial avenues is driving many people on to the land " [1] It is superfluous to repeat that the producers of raw materials which command high prices in the foreign markets, must benefit to the extent of the larger margin afforded (1) if the profits are not intercepted by middlemen and (ii) the cost of production is not increased. And raw materials required for indigenous industries must be sufficiently cheap as also the necessaries of life of the mass of the population. Then only will high prices prove beneficial to producing classes.

Cultivators supplying their own labour and producing their own food, receive larger incomes on account of high prices. But those who have to employ dear labour and buy dear food and other necessaries of life, cannot be any the better for a higher level of prices. We have shown above that food production in India has not kept pace with the increase of population. A rise in the price of food grains, therefore, which is brought about by insuffiiciency of supply, can have no beneficial effect upon the community. Even it we take only the producers of food grains, though rising prices must be an advantage to them, it must not be forgotten that to the growing number of agriculturists this must be only a palliative. Cheap food is regarded everywhere as an essential thing to a nation, and we must have an abundance of cheap food rather than insufficient supplies of dear food grains.

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1 Page 162.

The country, as a whole, must benefit by a rise in the prices of exported commodities only if there has been no corresponding increase in the prices of imported goods. Mr. Datta observes:—" India's exports have thus grown considerably in value in consequence of the rise of prices and only a part of this increase goes towards meeting the increased cost of her imports. There has also been a considerable increase in the volume of the imports of many classes of goods required for consumption and the increase in the imports of many classes of goods which were formerly considered as luxuries but are now recognized as necessaries, bear eloquent testimony to a standard of living which is rising higher and higher with the rise of prices and the material prosperity of the country."[1]

The true benefit will be measured by the difference between the prices of the exported and imported commodities, their character and their quantity. During recent years, as the price statistics given in the tables on a preceding page will show, the prices of imported articles rose higher than the prices of exported commodities. Though the high prices of exportable goods have thus benefited the producing classes, the advantage gained by them and by the country, as a whole, has been counteracted by the higher range of the prices of articles imported into the country.

273. Speculation and Prices.—Prices in the interior of the country are generally regulated by custom and are little affected by the movements of trade in the big towns. It is only in the case of the staple articles of export such as cotton, jute, oil seeds &c. that conditions prevalent in foreign countries affect prices in the districts. Retail prices are not easily disturbed by the fitful currents of wholesale dealings in the larger markets, though the connection between the two, is becoming closer every day and is particularly marked in the larger towns.

Concentration and specialization in production make buying and selling upon a large scale necessary. Even

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1 Report on High Prices.

a small merchant has to-buy in anticipation of the demand he will have to meet and he makes his own calculations as to the quantity and price. There is some risk involved in this purchase of large quantities long before they can be disposed of. But that is the chief function which the merchant performs and for which the consumer remunerates him.

A cotton manufacturer must ensure an adequate supply of the raw material at a reasonable price. Cotton is produced in a certain season and its quantity and price are likely to be affected by several circumstances. He must, therefore, buy in anticipation and must thus indulge in a kind of speculation. "The essence of speculation lies in forecasting price movements and then buying or selling for a profit. Having made his forecast, the speculator buys if he thinks prices are going to rise, sells if he thinks prices are going to fall. He looks to the future and works on an estimate; he takes the risk of loss if his forecast is wrong in return for the chance of gain if his forecast is right."[1]

Manufacturers and merchants, therefore, buy and sell on contract and certain people specialise in effecting these speculative dealings. Sales and purchases for future delivery are carried on by brokers; and cotton, jute and other exchanges have come into existence in this country. In Bombay and Calcutta, the markets for these staples are controlled by associations of dealers who have their special rules under which speculative transactions are carried on. Speculation, if it is carried on with the definite object of securing and supplying commodities at fixed prices, is socially very useful and has the effect of steadying prices. But thers is a bad kind of speculation like the good kind, which degenerates into pure gambling.

A person both buys and sells 'futures' to make his gains and losses even; and there is nothing wrong in this. But many people buy and sell without having the least idea of ever taking or giving delivery when the day fixed

1 Henry Clay: Economics

for 'settlement' comes. The payment of difference in the rates fixed involves loss to one of the two parties, because the calculations on which the prices were based may be upset by circumstances beyond his control. Reckless and irresponsible speculators use all kinds of arts to manipulate prices in their own interests and the whole market is thrown into commotion and confusion by the manoeuvres of 'bulls' and 'bears'. The ruin of a few people may lead to a widespread disaster and the whole structure of credit may be rudely shaken. The condition of the Bombay cotton market in March and April of 1918 with respect to speculation in Good Broach, whose price was pushed up by 'bull' operators to unprecedented heights, is an interesting illustration in this connection.

There has latterly been a good deal of discussion relating to the cotton and the stock exchanges in Bombay. The condition of the cotton market became so dangerous to financial stability on account of the reckless cornering and gambling in 'futures' indulged in by speculators that at last Government had to intervene and to provide, by legislation, for a well-regulated controlling authority in the form of a cotton control board having on it representatives of the different interests and associations concerned in the trade. The need is felt of regulating in a similar manner the working of the stock exchanges, of which there are now two in Bombay, the old and the New Exchange, a new body having recently been brought into existence to supplement the facilities afforded by the old exchange. The speculative mania has often reached such heights that a serious shock to public credit has been very narrowly escaped. Various improvements have been talked about, *e. g.* the regulation of the 'settlements' which are monthly under the existing system.

274. Standard of Living.—With the expansion of currency and the more general use of money, the habits and tastes of people of all classes are changing. In England, wages rose to a high pitch owing to the war and as more money circulated in the country, the working classes spent more and devoted their earnings to the

consumption of luxuries which were formerly beyond their reach. The working classes in England, women as well as men, have become accustomed to a higher standard of life and their wages have had to be fixed in accordance with it. That phenomenon is observable, on a small scale, in this country also. Improvement of communications and imports of cheap articles of everyday use from foreign countries into India, combined with rising prices and higher wages, have induced people to consume such articles, and this consumption is producing interesting social effects. Restrictions imposed by caste, religion and custom, are becoming slack and new ways are being adopted in eating, dressing, furnishing houses, in amusements and in other matters.

The growing imports of certain articles of luxury and convenience are taken as an indication of the above change in the objects and methods of consumption and as an unmistakable indication of material prosperity of the bulk of the population. An increasing use of clothing and of clothes of a better quality, the construction of better houses, the consumption of wholesome food in sufficient quantity, improved water supply and sanitation, a growing habit of reading and a more liberal supply of the sources of innocent amusement and of the general amenities of life,—these will certainly bespeak a higher standard of living. A mere substitution of one article for another, or a mere change of social customs, is by no means, a sure sign of true prosperity.

The middle and the lower classes of population are doubtless now able to command certain comforts and luxuries which formerly they could not dream of enjoying, and to that extent there are signs of the standard of life rising higher. More money circulates among them than

before ; but most of the rayats have no stocks of grain, as they used to have, there is scarcity and deterioration of milch cattle, and they do not seem to feel better off in spite of the changes noted above. Whatever prosperity we see, is mostly the properity of the few and the volume of wealth appears to flow from the countryside to centres of industry and trade and from the mass of the population to the middlemen. The following statistics of imports of certain articles of luxury and convenience, are given as a proof of growing prosperity :—

Imports of certain Articles of Luxury and Convenience.

Lakhs of Rs.

	1908-09	1909-10	1910-11	1911-12	1912-13	1913-14
Sugar and Molasses...	10,62	11,15	12,62	9,96	13,78	14,47
Kerosene Oil ...	3,32	2,51	2,37	3,25	2,56	2,86
Cotton piece goods ...	32,20	32,82	37,54	41,20	51,80	60,54
Silk ...	1,85	1,85	2,30	2,15	2,55	2,52
Woollen piece goods...	2,38	1,58	2,43	2,79	2,40	3,06
Apparel and haberdashery ...	1,95	1,92	2,84	2,85	2,75	3,06
Boots and Shoes ...	39	57	46	55	65	74
Copper and Yellow metal ...	1,69	1,69	2,22	1,62	1,76	2,51
Matches ...	75	82	84	88	98	90
Soap ...	41	45	53	62	70	74
Betel nuts ...	87	88	1,08	1,05	1,18	1,23
Galvanised Iron sheets	1,97	2,42	3,45	2,98	8,83	5,38
	58,33	58,46	69,36	69,91	84,74	97,57
Index No. (taking quinquennium 1908-13 as 100)...	86	87	99	1,08	1,25	1,44

There is no doubt about the fact that economic changes which are in operation in the country today, are producing far-reaching effects upon the methods of consumption and the general social status of several classes. Many people who have adjusted themselves to the new forms of industrial organization, are now able to earn

more than if they had remained in the old grooves prescribed by custom. They continue to be members of the old castes but their standard of living is being raised to that of the higher castes. They live, speak and dress differently and social equality is being created by economic improvement. From the point of view of consumption, Indian society no longer wears the old static aspect, and changes are visible on every side. Most of the articles of luxury and convenience given in the above table, are, however, largely for the use of the urban population and the masses dwelling in villages have but a small share in that prosperity.

275. Consumption and Prosperity.—The increased consumption of imported articles may be an indication of material progress, so far as it goes. But there is the other side of the shield. Mr. Ramsay Macdonald says of the use of articles of luxury by the working classes in India as follows:—"Better clothes are being worn, cigarettes are beginning to take the place of the hookah, alcohol is being more widely consumed, shoes are more general, umbrellas are becoming more common. The people's wants—too many of them debased—are becoming more costly to meet. As evidences of increased prosperity, I place little reliance upon such facts. These things no more show prosperity than expensive weddings or extravagant funerals."[1]

An increase in the number of wants is desirable and a larger supply of necessaries and comforts is indispensable for material progress. We see physical and intellectual lethargy in the villages and any thing that will shake people out of it, is welcome, but the masses are still uninfluenced for good by modern civilization. And the articles consumed either as substitutes or additions, must not lead to physical deterioration and moral debasement; and changes in the manner of living, dressing, amusement and so forth, must be conducive to healthy physical and moral development. Tea-drinking has already spread into

1 The Awakening of India: pages 177–78.

the interior of the country and among all classes of people. In the Bombay Presidency "the rapid multiplication of places of refreshment where tea is sold is remarkable and the beverage is becoming popular with the masses." Workmen, employes and others, find tea to be a welcome beverage which braces the nerves and gives temporary energy. It can be easily prepared and can be had without difficulty at times when it is required. Coffee takes the place of tea in the south, while northern India is addicted to neither.

The loss and deterioration of milch cattle in the country, present a problem of the most serious import to the health and strength of the community. The results of a cattle census for this Presidency, recently published by the Government of Bombay, make melancholy reading. The mumber of milch cattle in the Presidency proper was 2·8 millions in 1895-96, 2·1 millions in 1905-06, 2.9 millions in 1915-16 and 2·5 millions in 1919-20. The loss of these cattle during the famine of 1918, was enormous, and in certain districts simply disastrous. The result has been an unprecedented scarcity and dearness of milk and ghee, and prices even in normal years are higher than those of famine times. The problem of the preservation and improvement of cattle is of the greatest economic importance. Dearness of milk must produce physical deterioration, and the question of fodder supplies which is connected with it, must be taken in hand immediately.

The substitution of tea for the more wholesome bread and milk as food, cannot, however, be recommended and the prevalence of the tea habit is to be deprecated on this ground. The place of an adequate quantity of cheap, wholesome food of the old kind, cannot be taken by drinks and foods of the modern fashion without detriment to the health of the consumer. And many are martyrs to tea and coffee and, therefore, to dyspepsia and other diseases. The habit of consuming liquor is, again, on the increase and unfortunately it is shown as a sign of material prosperity. Among the lower classes, particularly in towns, drinking prevails to a large extent. The introduction of money economy is placing money in the hands of workmen who are

tempted to spend a large portion of their earnings on liquors and other intoxicants. The war, which brought temporary prosperity to the working clases, encouraged drinking to an appreciable extent. And the time seems to have to arrived for the State to control and check the consumption of intoxicants.

The two chief religions of India, Hinduism and Islam, have condemned drink and yet the lower classes are taking more and more to it. Several workmen drink away a large part of their wages and make themselves and their families miserable. In the Punjab, for instance, we are told that "among all classes the increased means have not been accompanied by a proportionate development of the rational enjoyment of leisure. The Jat, if his religion does not forbid him, spends more time with the bottle and too many find in the excitement of the law courts their only relaxation." This is an illustration of the spread of the evil of drink throughout the whole country; and the efforts of temperance reformers have clearly not produced any appreciable effect.

In the second Chapter of this book, an attempt has been made to give an idea of the Indian out-look on life and on the material world. There we have referred to the effect of the contact of modern Western civilization with the culture and social organization of India. The economic, social and political evolution which began 150 years ago, is rapidly proceeding and the pace of the progress has been recently quickened. There is a steady approximation to European ideals, in dress, manners and institutions, and the goal of progress is believed to lie in the clothing of Indian spirit in the garb of modern civilization. Dramatic performances, cinemas and vices of all kinds absorb a large portion of the earnings of labourers and traders in towns; and extravagance of the worst sort is seen to eat as a canker into the vitals of the rich and also the lower middle and lower classes. The mass of the population in India has not yet experienced the full effects of the impact of the two civilizations, though the reaction of the ne forces on the people in the economic,

political and social spheres is clearly visible. Changes in production and distribution have been described in the earlier Chapters and those in consumption are noticed in the present Chapter.

276. The Masses and Consumption.—Indian cultivators and handicraftsmen have struck observers as people of simple habits, sober, contented and God-fearing. But their thriftlessness and extravagance in marriage ceremonies and funerals have attracted a good deal of attention as also their fondness for ornaments; and these are often exaggerated.[1] The truth is, that the mass of the people in India have all the weak and the strong points of a predominantly agricultural and industrially backward population. Western civilization brings with it, its drawbacks as well as its conveniences and comforts. It is by a balance of these that progress is to be estimated. There is extravagance of a sort in these matters among all

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1 "The results of the commission's inquiries show that undue prominence has been given to the expenditure on marriage and other festivals as a cause of the rayat's indebtedness. The expenditure on such occasions may undoubtedly be called extravagant when compared with the rayat's means, but the occassions occur seldom, and probably in a course of years the total sum spent in this way by any rayat is not larger than a man in his position is justified in spending on social and domestic pleasures............The sums usually spent on these occasions have probably been over-estimated, or the operation of other causes in producing debt has been overlooked by the officers who have attributed the rayat's burdens so largely to this cause."—Report of the Deccan Riots Commission.

Mr. Datta says in his Report on High Prices :—" The Indian cultivator, is, as a rule, thriftless and extravagant and much addicted to litigation. He lacks that business education which leads the rayat to restrain his tendency to borrow and which enables him to calculate the result of expenditure whether on improvements or otherwise."

classes or the community, and debts contracted for social and religious purposes are not regarded as something undesirable. Custom requires that so much shall be spent on festive and mournful occasions, and to most people custom is an irresistible tyrant who takes a heavy toll of his victims.

Social reformers have been crying against this evil for years in vain. Factory labourers and artisans are no less free from indebtedness than cultivators, but there are a few thrifty people in all the strata of society and the saving habit has to be inculcated and strengthened. Wages earned and saved in towns are remitted to villages to support families on the land. It is an interesting phenomenon that people migrate from the districts to towns for earning a living as factory workers, domestic servants, petty traders &c. and they remit home their savings with which new landed property is purchased and old property is repaired. The temptations of town life are too strong to be resisted and lead the otherwise simple workman into paths of evil living. The social reform movement has not yet touched the lower classes, and it is they among whom it must spread. We have already referred to the indebtedness and poverty of the rayats ; and every thing which will make their lives brighter, give them sufficient food, shelter and clothing and raise them physically, morally and intellectually, must be attempted by those who are interested in the uplift of the nation.

277. Villager's Life.—The life of the villager is of the simplest kind. Bread of Bajri and Jvari, or of Wheat in Northern India, and Rice in Western and Southern India, accompanied by a small quantity of vegetable, forms the common dietary. Clothing is rough and cheap in the case both of men and women, and according to Western ideas, insufficient. When a potential labourer first leaves his village home in the konkan, he is almost in a state of nature except for the small loin cloth, and catches the fashion of the dhoti and the shirt in the town where nude simplicity is not apprecicted. The houses

have mud walls and thatched roofs and are kept clean, though ideas of personal hygeine and general cleanliness are at a discount among the lower classes. A few trinkets and holiday clothes constitute their luxuries. Most of the village people and many workers in towns are sunk in chronic indebtedness and unless and until they learn thrift, it is hopeless to expect much improvement in their condition. The standard of life of people of the highest castes among Hindus and among towns people generally, is higher. They are better housed, clothed and fed.

The condition of the depressed classes is everywhere shamefully deplorable. These people have to live on the outskirts of villages and towns and they are really outcasts. Their houses and general surroundings are dirty and their habits are filthy. Manu and other Hindu law-givers and the Mahabharata have described the origin of the people of the untouchable classes, the dirty occupations they must fellow and the wretched food they must eat. For two thousand years these classes have been living what is hardly a human life. Even to-day they are not allowed in southern India to walk through the streets and their shadow is pollution to caste people. The uplift of these classes is now being taken up as an urgent national problem and strenuous and sustained efforts alone will solve it. The labouring population in towns is fast changing its habits and customs, and this change is very slowly permeating the country side where kerosene, corrugated iron sheets, glass and chinaware, cheap lampware, matches, cigarettes, soap, tea and toys are being introduced into common use.

The Indian cultivator or labourer cannot be compared to the farmer or workman in the West in the matter of wages and the standard of life. They are so unlike each other. The average income of an American working man's family is calculated at Rs. 2,248, 42 per cent. of which is spent on food and a large percentage is used in buying comforts. The average income per family in the Deccan village of Dr. Mann's inquiry, is only Rs. 218 and it appears that 70 per cent. of this is spent on food and above

22 per cent. on clothing. He concludes :—" The people in the most sound position are those with small families, with few children, with much land and with few debts. Only $8\frac{3}{4}$ per cent. of families are able to maintain themselves on their land alone, 27 per cent, on land plus outside labour and the remainder appear to be unable at present to reach the standard of maintenance which they themselves set up."

278. Variety in Consumption.—Generalizations about the methods of consumption in India, will not be true to facts. The extensive variety we have in climate, soil, race, religion and culture in the different parts of the country, has created different modes of dress, dwellings, food &c. which are simply bewildering. Contact with one another, brought about by improved means of communication, is rapidly tending to assimilation by provinces and districts of the ways of life of their neighbours. This growing uniformity must, however, be limited by variety, fixed in the nature of things. The inhabitants of the Punjab are compelled by their cold climate to wear woollen clothing and construct their houses so as afford sufficient protection against it. The clothing of the people of the southern provinces is the scantiest, and is made of cotton. The food that the inhabitants of any part of the country eat, is mostly determined by the produce of its fields, and hence wheat and rice have become staple foods in different provinces.

The shape and style of houses are governed very largely by the climate and the building materials that are readily available. Hence the variety of stone, bricks, mud, timber, bamboos etc. used in the construction of dwellings. Heavy rainfall requires a particular kind of roofing, earthen tiles or stone work. Mud roofing is enough in districts where

the rainfall is small in quantity.[1] Proximity to forests makes cheap timber available and the abundance of certain kinds of thatching material fixes the style of roofs. Differences of race and religion also play their part as much as the natural conditions in fixing the nature of the consumption of people and the factors of ignorance and intelligence must also not be ignored. Thus are accounted for the varieties witnessed among the people of the Punjab and Bengal, of Bombay and Madras in respect of the kind of wealth they consume and their methods of consumption.[2] The internal variety in each province and locality is, of course, to be attributed to the economic condition of different places and classes with reference to their trade and their industries. Dictates of religion and custom have had a powerful influence in regulating consumption as also the degree of the security of life and property enjoyed.

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1. "Clothing and the structure of the people's dwellings also vary in like manner, being partly determined by the requirements of the climate, partly by the nature of the materials available. In Afghanistan woollen fabrics and sheep skins are in general use, and the former are much worn also in the Punjab in the cold season by those who can afford them, while the poorer classes wear clothes padded with cotton wool. Cotton fabrics of varying texture are the ordinary clothing of all classes in India, and silks are very much worn in Assam and Burma; but the least civilized tribes of Chutia Nagpur, of the hills of Assam and Eastern Bengal, and the natives of the Andaman Islands, are able to exist with the smallest possible amount of clothing habitually worn by any of the human race."—Macmillan's Geography of India.

2. The curious may read with interest the account given in his Ayeen Akbery by Abul Fazl, of the food, houses, dresses &c, of the subjects of the Emperor in the different subhas. Speaking of Bengal, he says :—"The food of the inhabitants is for the most part fish and rice; wheat and barley not being esteemed wholesome here. Great numbers of men and women go quite naked, except covering for the loins. In this country women are allowed to transact business in public". Concerning Orissa, he writes:—"The periodical rains continue during eight months; and they have three months of winter, and only one month that is very hot. Rice is cultivated here in great abundance. The inhabitants live upon rice, fish and vegetables. After boiling the rice, they steep it in cold water and eat it the second day."

The ease with which goods can be transported from one part of the country to another by means of the railway, is breaking down provincial isolation and bringing about uniformity. Cloth, sugar, matches, cigarettes, hardware, apparel, kerosene, paper, glass, umbrellas &c. which are imported from abroad, are evenly distributed by the railways all over the country for common consumption; and the imitation of western dress and furniture and a spirit of common Indian nationality, are producing the same results. Religious and caste prejudices are steadily giving way before the advance of western civilization in the country.

279. Saving and Investment—Frequent references have been made in previous Chapters to the condition of credit in India, the indebtedness of the mass of the people, banking facilities, the spread of the co-operative movement and investments in Government loans. How far the banking habit is spreading in the country, it is difficult to guage with any pretensions to accuracy. Our evidence in the matter consists of the deposits in the joint stock and Postal savings banks, the contributions of people to the loans floated by Government and the progress of co-operative credit; and it points to a steady improvement in the desired direction. The numerous new industrial joint stock companies which have come into existence, leave no doubt about the popular tendency towards saving and investment; but the share of the common people in this movement, is probably small. It is mostly the classes who were accustomed to saving and whose earnings left a large margin to be invested, that have participated in the new investments.

The ignorance of the mass of the people and the formalities that have to be gone through by the investors in purchasing securities and in collecting interest, are a serious obstacle that hampers investment. Government is fully alive to this and has been simplifying the procedure connected with investments in its loans. But even then the educated and the intelligent classes alone can take advantage of the facilities. The cash certificates, for example, brought to the State a decent amount of money,

but the pressure of persuasion that was exerted under the stress of war conditions, did not produce desirable effects. Several people who bought the certificates which really represented a very good investment, did not understand the nature of the transaction and thought it was a kind of a war contribution to Government and they are reported to have disposed of them even at a loss, though they were readily encashable.

In his speech introducing the financial statement for 1919-20, the Finance Member explained what Government had done and intended to do to attract the small investor and his little hoard to its loans. He pointed out that whereas in the 1917 loan, the number of investors, excluding purchasers of cash certificates, was 1,55,103, in the loan of 1918, the number of subscribers was no less than 2,27,706, and observed that it was clearly of the highest importance that every effort should be made to retain, and if possible, to increase the new *clientele* and to foster the seed which had been sown. Among the advantages of the gradual spread throughout the country of a habit of investment, he pointed to the diversion to fruitful purposes of India's sterile hoard of the precious metals to the mutual benefit of the individual and the State. Habits of economical consumption have to be spread among the mass of the people and the advantages of foresight and of providing for the future have to be impressed upon their minds.

280. Charity.—Much of the traditional and present-day charity in India causes avoidable waste. The instinct of pity for the poor and the distressed and of veneration for learning and piety, which is guided and strengthened by Indian religions and traditions, often leads to extravagant and wasteful methods of charity. Help which ought to be given to the truly deserving, is frittered away on sturdy beggars and habitual idlers. An Indian's conscience will not allow him to turn away a beggar from his door; and tramps and able-bodied professional mendicants take advantage of this attitude of mind. Paupers who cannot work for a living, helpless widows and orphans, the blind,

and the cripples must all be supported by the community, and individual and collective charity has been doing this work. Individual and family responsibility for charity of this description which has been well recognized in India, has obviated a State organization for the purpose. And within recent years, hospitals and orphanages have been founded by pious people for the relief of distress.

The Hindu joint family is a co-operative institution and maintains the aged and the weak members. But that institution is rapidly falling to pieces before the growth and spread of individualism. The advantages and disadvantages of the joint family, we have referred to already. Very often it serves as an efficient instrument of production; but in distribution, it fails to give satisfaction and the family becomes a hive in which the workers and the drones quarrel. In consumption, the joint family is a great help to the aged and the weak and exhibits its usefulness in a most conspicuous manner. It is not impossible to combine individualism with the family instinct; and relatives in difficulties and distress may be taken care of by members of a divided family who are in a position to do so.

That the organization of Indian religious and charitable endowments is not satisfactory, has now come to be widely recognized and the question of placing these on a sound footing has been discussed by our legislatures. It is admitted that religious and charitable trusts are being abused and badly managed and that they do not carry out the objects of the original donors. Some hesitate to allow State interference in such matters; but without strict outside control exercised on behalf of the whole community, the existing abuses are not likely to be corrected. Beggars in India have become a nuisance and the problem of dealing with them has attracted a good deal of public attention. Much can be done in this regard by individuals who must refuse to encourage idleness and vagrancy. True charity enjoined by religion cannot mean the support of beggars who will not work for an honest living. Communal and public organizations must take

the place of the individual charity which does not serve much useful purpose.

281. Conclusion.—(1) The standard of living of the mass of the population is very low. In the interior parts of the country where the bulk of the people live, conditions in the matter of housing, sanitation, food, clothing &c. are unsatisfactory.

(2) Rising prices have benefited a few land-holders, but a large portion of the cultivating classes and agricultural labourers have but little benefited by them. The position of merchants, manufacturers, money-lenders and of the urban population of the higher and the upper middle classes is better. But wages, except in a few instances, have not risen in proportion to the higher prices of the necessaries of life; and the lot of those who have fixed incomes, is, of course, hard.

(3) The consumption of imported foreign articles is fast spreading in urban areas and new tastes and changing habits bespeak a slow social evolution which is in progress in the country. But people living in cottages are but slightly affected by these influences and continue to lead plain rural lives.

(4) Chronic indebtedness is a serious drawback in the position of the cultivating and the working classes generally and materially curtails their power of production and consumption.

(5) The evil of drink is unfortunately widespread and is responsible for a good deal of misery suffered by the lower classes.

(6) The peculiar customs of the people which entail heavy expenditure on religious rites and social functions, on weddings, funerals, &c. entrench upon their small incomes and often drive them into indebtedness and misery.

(7) Another evil to which reference must be made is litigation. Disputes about land and money dealings are a potent cause of ruin to cultivators, craftsmen and labour-

ers. The average number of civil suits instituted in British India is $20\frac{1}{3}$ lakhs, and in 1913, involved a money value of more than Rs. 42 crores. Fifty five per cent. of the suits instituted in 1913, were for amounts not exceeding Rs. 50, and 95 per cent. of the whole number were for sums not exceeding Rs. 500. The disputes involve a lot of expenditure to litigants; and cheap justice, by means of the institution of punchayats and otherwise, seems to be necessary. Factiousness is a common feature of village life and modern administration of justice is very costly.

(8) The joint family system is an important economic factor, and an average Indian family is an association for consumption as well as for production. Partitions of real property are indeed common and usually render production inefficient. The joint family system has its advantages and drawbacks. It renders living economical and conduces to the protection of the weak and the aged. But it likewise chills enterprise and puts a premium on idleness. Bickerings among the members of a joint family are normal and their life is rendered unhappy.

(9) The instinct of charity is strong in India, and owing to the prevalence of private, individual charity, the need of the poor law does not exist. Orphanages, hospitals and other institutions for the relief of the weak, the helpless and the suffering, have indeed come into existence, and there is immense scope and extensive need for their increase and development. The problem of sturdy beggars and mendicants who consume without making any contribution, direct or indirect, to the production of communal wealth, is urgent in India. There is a waste of consumption going on in this direction which must be controlled and reduced. Charity must be diverted to more useful channels conformably to the needs of national progress.

(10) Luxuries of a sort people of all classes will always require. But wasteful luxuries indulged in by the higher classes, must be curtailed if the people in the lower strata of society are to have the means of a decent existence. The earnings of the latter will have to increase so

that they may command the necessaries of life in adequate quantities. Railways, steamships, the post office, the telegraph and other agencies of modern civilization are slowly bringing new conveniences and comforts within the reach even of the poor. But it has been stated above that from the point of view of consumption, there is no real and substantial improvement in the lot of the lower classes of society, particularly of the rural population.

(11) The rude rural plenty of the olden times, no doubt varied by frequent scarcity, has been now replaced by a uniform shortage of food stuffs. Cheap food of a better quality must be made available to the middle and lower classes. Sanitary dwellings, nourishing food at cheap prices, ample supply of pure water, improved sanitation and decent clothing are the needs of the urban and rural population. The lack of these cannot be compensated by the consumption of the so-called luxuries.

(12) The average income per head of the population is low to a degree and is not sufficient to afford the means of a healthy and comfortable living. The extravagance spoken of in connection with the Indian masses, must, therefore, be understood in a comparative and limited sense. There is yet much room for thrift even here and with proper care a small income may be made to go a long way and much waste may be avoided. Saving and useful expenditure must be encouraged and the spread of education is calculated to bring about a good deal of improvement in this respect.

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(*N. B.—The figures refer to pages.*)